

A STUDY OF A NEW PRODUCT IN THE
REAL ESTATE MARKET IN HONG KONG :
INDUSTRIAL - COMMERCIAL BUILDINGS

by

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ABSTRACT

The change of the economy structure of Hong Kong in the mid 1980's, from a manufacture based to a trading and services based economy, has created numerous changes in the social and economic structure of the colony. It has also allowed a unique product to be developed in the real estate market : the Industrial- Commercial (I-C) building. It is a unique product in the sense of time (a lifespan from 1989 to 199?), and place (found probably nowhere else in the world but Hong Kong).

The I-C building is an intermediate product between industrial and office buildings, as the name suggests, for fulfilling the intermediate needs of its quasi-industrial, quasi-commercial tenants. This need arises as manufacturers in Hong Kong move part or whole of their production lines to cheaper cost South China, and start integrating into trading or distributing businesses. The accommodation requirement is thus a mixture of administration space and workshop/storage space, that cannot be fully fulfilled in either traditional industrial buildings, or office buildings.

Developed from need rather than Government planning, the use and design of the I-C building as part offices does not meet the legal restrictions of either Industrial or Commercial buildings. Most of the about 40 blocks completed up to 1993, with a total worth estimated at HK\$15 billion, existed at the mercy of the Government's non-execution of law.

The first part of the research using literature survey is designed to find out the detail development of the product, the market situation of the product in relation to competition from its substitute products, and competition between the major market players/developers.

The second part of the research using in-depth interview as well as literature support is designed as a exploratory study to find out the future direction of the product, and the future strategies to be employed by the major market players.

The third part of the research involving customers' survey was used to gauge the customers' needs, and for identifying target customers. It also attempt to find out customers' degree of concern on the legal status of the product.

The result of the study indicates that the product is still at its growth stage, although legislative changes may render the product obsolete in a few years time.

Meanwhile, competition intensifies with major players increasing production in this niche. Competition from substitute products of industrial and office buildings is not strong so long as demand continues to grow as the general economy. For a product or brand to remain competitive, improvement in both product feature and management services will be required.

Attention should also be paid to uncertainties common to the whole industrial and commercial market segments, when crafting a strategy to best suit the market environment and the developer company for success.

TABLE OF CONTENTS

ABSTRACT	ii
TABLE OF CONTENTS	v
LIST OF FIGURES	ix
CHAPTER I	INTRODUCTION
1.1	Background of the Private Sector
	Real Estate Market in Hong Kong
	1
1.2	Trend of the Real Estate Market
	4
CHAPTER II	RESEARCH OBJECTIVES AND METHODOLOGY
2.1	Background of the New Product:
	Industrial-Commercial Building
	10
2.2	Legal Status of I-C Buildings
	12
2.3	Research Objectives & Methodology
	13
2.3.1	General market environment ...
	13
2.3.2	Business definition &
	development pattern
	14
2.3.3	Marketing strategy of major
	players
	15
2.3.4	Survey
	16
2.3.5	Customer profile
	16
2.3.6	Rating of brands
	16
2.3.7	Rating of I-C buildings
	17
2.3.8	Attributes in purchase
	17
2.3.9	Advantages of I-C buildings ..
	17
2.3.10	Future market
	17

CHAPTER III FINDINGS FROM LITERATURE SURVEY & INTERVIEW

3.1	General Market Environment of the Real Estate Industry	18
3.2	Business Definition of I-C Buildings ...	21
3.3	Market Environment of I-C Buildings	22
3.4	Development of I-C Buildings	24
3.4.1	Location	26
3.4.2	Product Features	27
3.4.3	Pricing	28
3.5	Competitors Analysis & Marketing Strategies	30
3.5.1	Sun Hung Kai Properties Ltd	30
3.5.2	Sino Land & TST Properties Ltd .	31
3.5.3	Cheung Kong (Holdings) Ltd	34
3.5.4	New World Development Co Ltd ...	35
3.5.5	Tai Cheung Properties Ltd	35

CHAPTER IV FINDINGS FROM QUESTIONNAIRE SURVEY

4.1	Background	37
4.2	Customer Profile	38
4.2.1	Trade of customers	38
4.2.2	Unit area required	40
4.2.3	Use of the unit	41
4.2.4	First-time or repeat customers .	42
4.3	Pre-purchase Information Source	44
4.4	Trend of Customer Trades	46
4.5	Rating of Developers/ Brands	47
4.6	Rating of Five I-C Buildings	49
4.7	Rating of Attributes in Purchasing	53
4.8	I-C Building Compared to Two Competitive	

4.8	I-C Building Compared to Two Competitive Products:Industrial & Office Building ..	57
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CHAPTER V ANALYSIS OF THE I-C BUILDING NICHE MARKET

5.1	Business Problems	61
5.1.1	General Economy	61
5.1.2	Competition from substitute products	61
5.1.3	Lack of Sites	62
5.1.4	Legal Status	63
5.2	Target Customers	63
5.3	Strengths, Weaknesses, Opportunities & Threats of the I-C Building Niche Market	64
5.3.1	Strengths	64
5.3.2	Weaknesses	64
5.3.3	Opportunities	65
5.3.4	Threats	66

CHAPTER VI FUTURE STRATEGY & CONCLUSION

6.1	Future Strategy for the I-C Building Niche market	69
6.1.1	Legal status	69
6.1.2	Location	69
6.1.3	Product	70
6.1.4	Price	71
6.1.5	Promotion	71
6.2	Uncertainties	72
6.2.1	Legislative	72
6.2.2	Political	73
6.2.3	Economic	73
6.2.4	Environmental	74

APPENDICES

1.	Questionnaire	A1
2.	Record of Interview - Tai Cheung Properties Ltd	A4
3.	Record of Interview - Sun Hung Kai Properties Ltd	A6
4.	Photographs and plates	A9

LIST OF FIGURES

1.1.1	Real Estate Market Segments in Hong Kong ..	3
1.1.2	Product Range & Stock in the Three Real Estate Market Segments	3
1.2.1	Supply, Take-up & Vacancy of Private Domestic Units	5
1.2.2	Residential Market Cycle	5
1.2.3	Office & Industrial Vancancy Rate	6
1.2.4	Office & Industrial Prices	6
3.1.1	Estimated Production of Major Real Estate Developers in HK for 1991-1995	20
3.4.1	List of I-C Buildings Completed from 1989 to 1995	25
3.4.2	Office, Industrial & I-C Buildings Prices .	29
4.2.1	Customer Profile by Trade	39
4.2.2	Customer Profile by Unit Area	40
4.2.3	Customer Profile by Use of Unit	41
4.2.4	First-time or Repeat Customers	42
4.3.1	Customer Pre-purchase Information Source ..	44
4.4.1	Trend of Customer Industry & Space Requirement	46
4.5.1	Rating of Developers/ Brands	48
4.6.1	Rating of Five I-C Buildings	50
4.7.1	Rating of Attributes in purchasing an I-C Building Property	54
4.8.1	Reasons for Preference of I-C Buildings over Traditional Industrial Buildings	59
4.8.2	Reasons for Preference of I-C Buildings over Medium Grade Office Buildings	60

CHAPTER I

INTRODUCTION

1.1 Background of the Private Sector Real Estate Market in Hong Kong

The real estate property sector is important to Hong Kong's economy. The market capital of property companies account for nearly 40% of the Hong Kong stock market capitalisation.

All the private sector real estate properties in Hong Kong fall under four categories defined by the use of land zoned by the Town Planning Ordinance :-

- a) Residential (R)
- b) Commercial (C)
- c) Industrial (I)
- d) Other Specified Uses

Mixed uses are sometimes defined on specific parcels of land. Typically, 'C/R' allows either commercial or residential or mixed development, 'I' allows industrial use with ancillary offices. The Ordinance in effect divided the real estate market into three major market segments: Residential, Commercial, Industrial. This research will concentrate on an 'Industrial' product that is designed, priced and marketed as a 'Commercial' product - a hybrid of the two segments.

In all market segments, the market is controlled by a handful of powerful players, resulting in an oligopolistic market. There are, however, a large number of small property developers. The leading edge of the oligopolistic powers lies in the availability of the critical and scarce resource in the business - land. Accumulation of land in the 'Land Bank' of the major developers often takes decades. Most successful companies in the 1990's have invested heavily on land acquisition either during the Confidence Crisis in 1983, or in remote New Territories lots long before infrastructure links, or through merging with companies with land stock (HK Land & Dairy Farm, Cheung Kong & Hutchison Whampoa).

Within each market segment, a range of products are built to meet different needs, ranging from high-end to low-end accommodation, multi-purpose to design-to-suit buildings. The major product range and their total stock in Hong Kong at the end of 1992 is listed below.

FIGURE 1.1.1 REAL ESTATE MARKET SEGMENTS IN HONG KONG

	Stock at 1992 in mn sq m
Residential	44.1
Commercial	13.8
Industrial	23.7
TOTAL	81.6

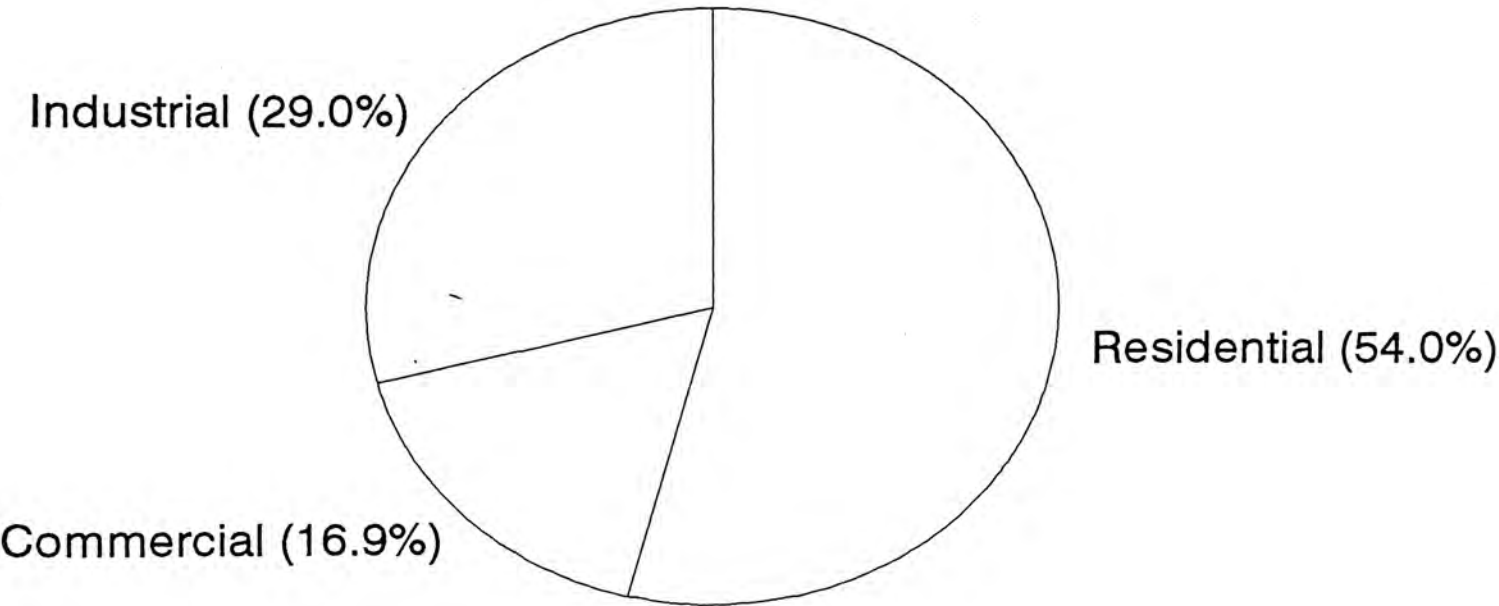


FIGURE 1.1.2 PRODUCT RANGE & STOCK
IN THE THREE REAL ESTATE MARKET SEGMENTS

Market Segment	Product Range	Stock at 1992	
		in mn sq m	in Percentage
RESIDENTIAL	A (small flats)	9.7	22
	B	18.7	42
	C	6.3	14
	D	5	11
	E (large flats)	4.4	10
	TOTAL	44.1	100
COMMERCIAL	Office Grade A	3.4	25
	Office Grade B	1.5	11
	Office Grade C	1.2	7
	Retail	7.7	57
	TOTAL	13.8	100
INDUSTRIAL	Flatted Factory	17.6	74
	Specialised Factory	2.9	12
	Storage	3.2	14
	TOTAL	23.7	100

1.2 Trend of the Real Estate Market

With the rapid growth of economy in Hong Kong for the past 20 years, growth in the real estate market is witnessed by the ever-transforming skyline of Hong Kong. Within this overall upward trend of the market, performance of individual market segments differs in response to different attributes.

The Residential market demonstrated a Vacancy Rate of a roughly constant 3-4% for the past 10 years, reflecting a persistent and steady demand for housing (Figure 1.2.1). The price of residential properties, however, fluctuates widely during the same period, between -30% to +60% Year-on-year change (Figure 1.2.2). The major influencing forces behind the residential market price are political confidence crisis and speculative motives, rather than supply and demand requirements.

The Commercial and Industrial market segments exhibit a closer adherence to the economic theory of market prices determination by the force of supply and demand.¹ This is also supported by the vacancy rate and price index data released by the Rating and Valuation Department (Figure 1.2.3). A secondary force influencing price is the need for an outlet for investment as the interest rate for the local currency, which is pegged to the US Dollar since October 1983, remained low.²

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1. Wardley James Capel report on Property Development Companies, May 1992
 2. Vigers Property Review Third Quarter 1992

FIGURE 1.2.1 SUPPLY, TAKE-UP, AND VACANCY OF PRIVATE DOMESTIC UNITS
Source: Wardley James Capel

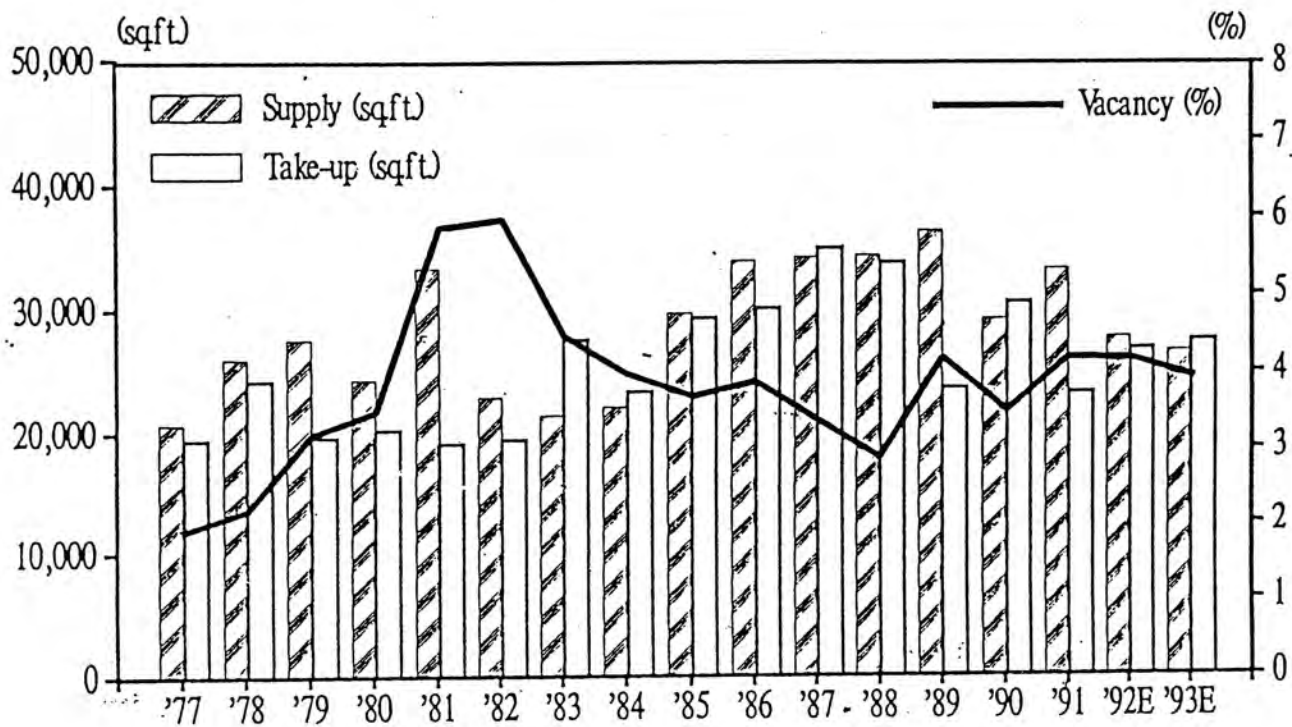


FIGURE 1.2.2 RESIDENTIAL MARKET CYCLE
Source: Wardley James Capel

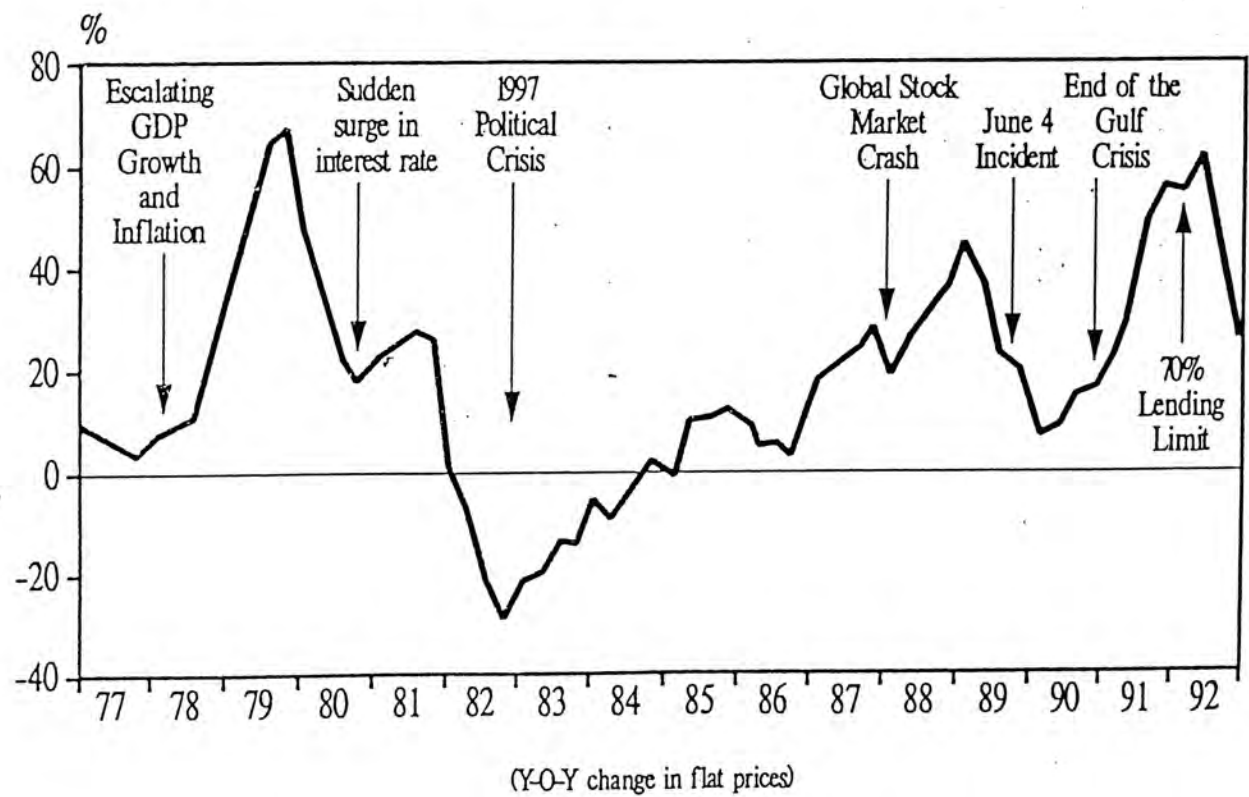


Figure 1.2.3 OFFICE & INDUSTRIAL VACANCY RATE

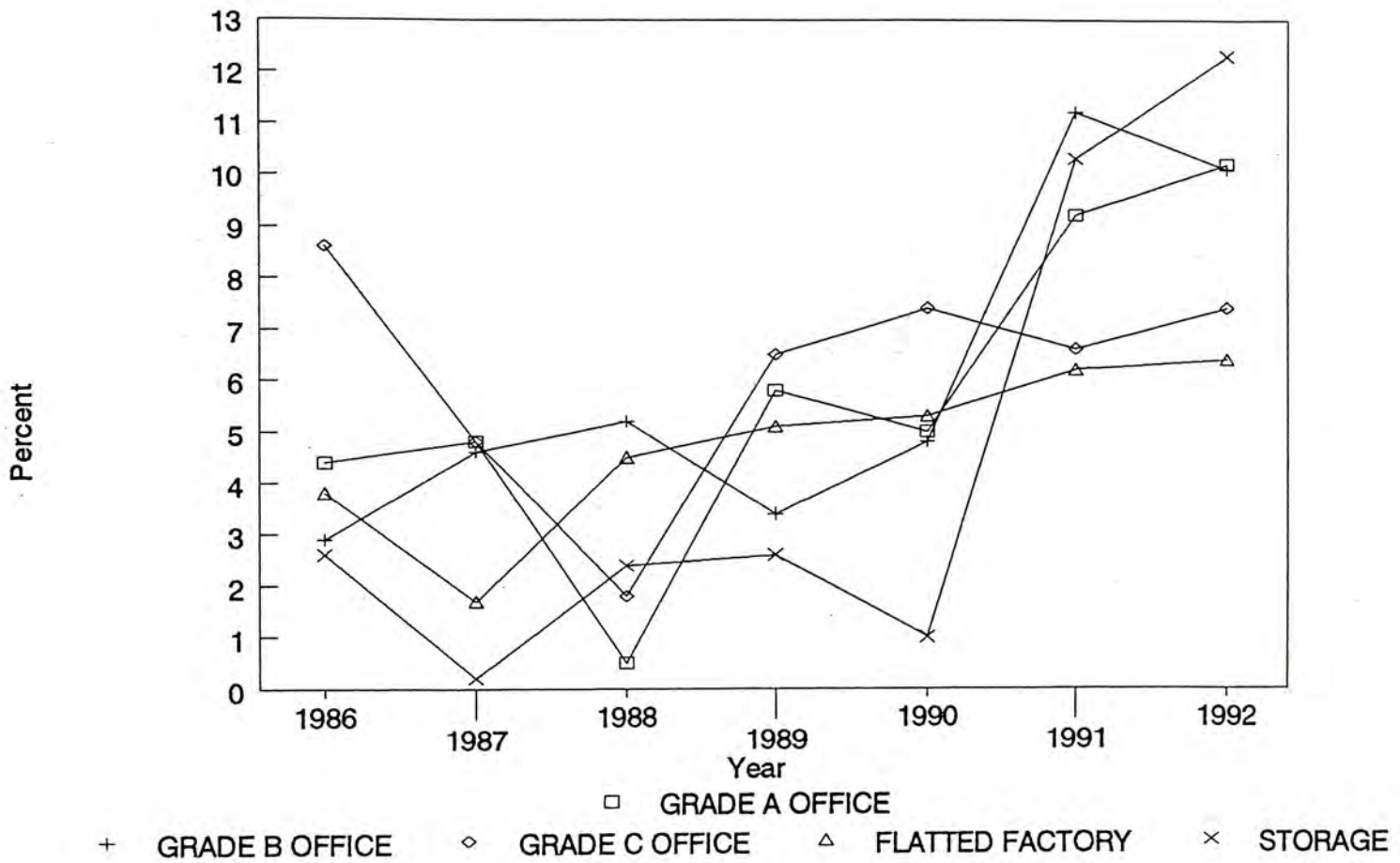
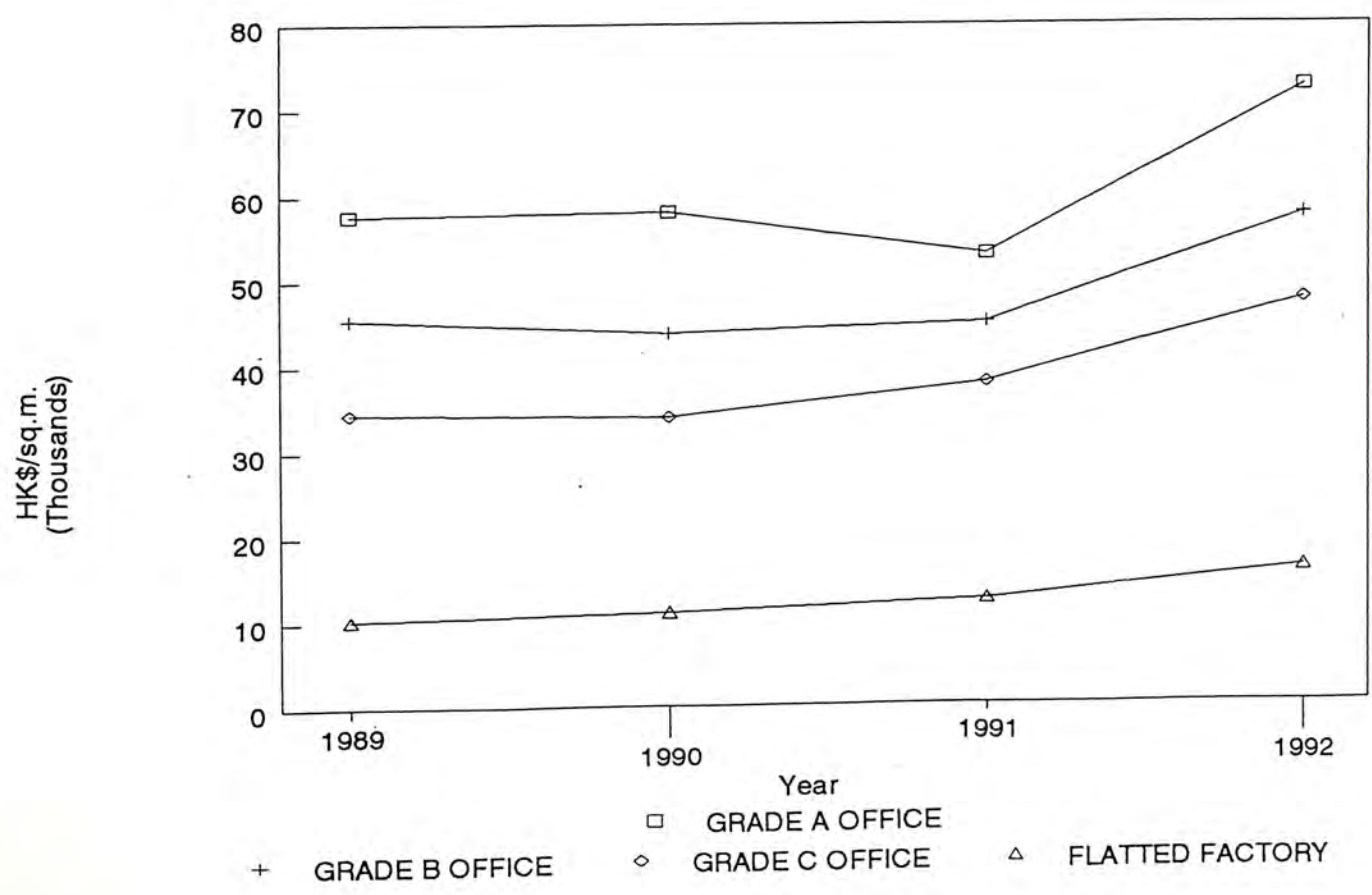


Figure 1.2.4 OFFICE & INDUSTRIAL PRICES



A closer look at the vacancy rates and price trends of different product ranges in the Commercial and Industrial segments, as reported in the Property Review 1993, published by the Rating & Valuation Dept (Figure 1.2.3 & 1.2.4), revealed the followings:

- a) In 1988, office space of all grades was in great demand, vacancy rate dropped to a historical low of 2-3%. Rental price of offices shot up significantly. Supply of office space increased from 1989 onwards to ease the shortage. The average office vacancy rate rose steadily from 2.7% to 10% in 1992. Grade C offices, however, showed a markedly greater demand than that of Grades A&B, with vacancy rate standing at 6-7% at 1991 & 1992.
- b) The price of Grades A&B offices dropped slightly during 1990 & 1991 in response to increase in supply, and rose in 1992 probably due to investment needs. The price of Grade C offices rose steadily from 1989 to 1992, revealing constant demand.
- c) In the Industrial segments, demand for flatted factories suddenly eased in 1988. The vacancy rate jumped from 1.7% in 1987 to 5-6% from 1988 until 1992. Vacancy is still on the rise. Price remains fairly steady from 1989 to 1992.
- d) There is a large price differential between Grade C offices (HK\$ 48,000/sq.m. in 1992), and flatted factories (HK\$ 16,000/sq.m. in 1992).

The market trend that can be drawn from these observations are:-

- a) In 1990-1993, there is a moderate oversupply of Grades A&B offices. Demand for Grade C offices is higher than that for Grades A&B, but supply is not strained. Thus either supply of Grade C offices is just enough to meet demand, or extra demand is met by substitute products.
- b) The sudden ease in demand of factories in 1988 coincided with the open door policy adopted by China in 1987. Shrewd manufacturers in Hong Kong seized the opportunity to move the manufacturing process to South China where production costs of labour and land are much lower.
- c) With the migration of the manufacturing industry to China, the Hong Kong manufacturers still require an administration base and transit storage space in Hong Kong to take advantage of the local well developed communication and transportation infrastructure. This serging demand of administration-cum-storage space, in lieu of manufacturing factory space, may have fuelled the increase in demand for Grade C offices.

The shortage of Grade C offices and the surplus of Factory properties created a unique market opportunity for Hong Kong real estate developers. This market opportunity is unique in the sense of timing (1987 onwards: open door policy of China), and unique in the sense of geographic location (Hong Kong).

The large price differential between the Grade C office and the Factory property allowed an opportunity for the creation of a substitute product priced in-between the two product ranges. The lower-than-office price will appeal to the Grade C office tenants, while the higher-than-factory price will promise profit to the developers, as long as the major production cost of land premium of Industrial lots remains low.

A few real estate developers were fast enough to detect the vacuum in the market as early as 1987 when China announced her Open Door policy. Others followed suit, while some of the largest real estate companies never entered this market.

CHAPTER II

RESEARCH OBJECTIVES AND METHODOLOGY

The change of the industrial districts is a reflection of the change in the manufacturing sector of Hong Kong's economy. New buildings are used as offices.... White collars and 'Madams' invade the area.... With the migration of production lines to the north, more factory buildings will be replaced by offices. We shall witness facelifts of whole districts.¹ The blue collars will then become the minority.

2.1 Background of the New Product :

Industrial - Commercial Buildings

In response to the changing social and industrial conditions in Hong Kong from 1988 onwards, whereby the local manufacturing sectors were migrating to the north, and the need for industry related administration cum storage space increases, a new product type in the real estate market was created to satisfy the market needs. The surplus in factory space is 'redressed', either by renovation of the old block, or by replacement with a brand new building, to be sold or rented as a higher-priced office space.

This 'Redress' process on industrial buildings is not a new concept, but until 1989 was practised in limited scale. In the late 1970's when commercial activities spread eastwards from Central to Wanchai & Causeway Bay, industrial buildings fringing

1. "Revolution of Industrial Buildings" T.L.Lui, East Week Magazine No 45 (1 Sep 1993)

these newly commercialised area, notably the Watsons Estate building at North Point, gradually saw its tenancy changing from manufacturers to lower grade offices, showrooms, training centres, transit storage, etc.. The public lobbies were renovated in the 1980's to upgrade the image of the building, to match the use by its tenants, and to allow the owners to fetch higher rents. Similar processes occurred at a slow rate at smaller industrial blocks at Western District, North Point and Quarry Bay.

When demand for Grade C offices serged in 1987 & 1988, the slow renovation process can no longer meet the demand. The existing tenancy in the factory blocks could not be evicted overnight to allow immediate upgrading of the building. The physical design constrains of structure, compartment, electricity and lift services could not be altered easily to meet office standards.

Thus real estate developers started in 1987 to pull down factory blocks and replace with new blocks designed to suit office needs. The process requires large capital input, and a time period of 1 to 2 years. The resulting product, the Industrial - Commercial (I-C) Building, is a hybrid product between the two market segments, and are priced as such.

One of the first generation of I-C buildings, the Westland Centre located at Quarry Bay, was completed in March 1989. It marked the creation of a large market niche that continue to grow and change.

2.2 Legal Status of Industrial-Commercial Buildings

Although marketed implicitly and decorated fully as an office building, using the I-C building entirely as an office will render the building an illegal product.

By origin, I-C buildings are built on Industrial-zoned land. The Town Planning Ordinance governs that buildings put up on Industrial zoned lots are to be used for Industrial purpose with a maximum of 30% area used for ancilliary offices. Violation of the Ordinance can result in a penalty of reverting the property to the Government.¹ However, the Lands Department admitted that for each district, there was only 2 staff allocated for Control and Enforcement of the Buildings Ordinance, and they could only handle complaint cases. The time period required for investigation, warning and prosecution could take years. Landlords and tenants thus conveniently choose to ignore the Ordinance.

² According to Mr CK Fung of the Town Planning Office, the Government is reviewing its land zoning policy in response to changing industrial needs. Up to June 1993, 13 parcels of land, totalling 74,100 sq.m., have been rezoned as 'I/O', allowing up to 70% area for Office use. The percentage was defined as to reflect the majority of the use put to the I-C buildings by the tenants. A higher land premium is expected from 'I/O' lots than that for 'I' lots

The more cautious landlords would have applied for a rezoning of their buildings to 'I/C' use, at a premium to the Government. Up to June 1993, 52 applications were received by the Government, and 30 cases were approved. For the time being, the majority of the I-C buildings in the market still exist at the mercy of execution of law.

Since 1990, some developers in this market have built the I-C buildings in properly zoned 'I/O' lots at higher land costs. Others still take a chance and build on 'I' lots which cost lower, hoping that the Government will not tighten the clamp before they sell all the units and make big profits.

2.3 Research Objectives & Methodology

This section will outline the detail research objectives, its relevance and importance, the methodology to be employed and its limitations.

2.3.1 To briefly study the general market environment of the real estate industry as a background to the niche market of I-C buildings. The position of the I-C building product in the industry, and in each market players' company portfolio is vital in understanding and development marketing strategy for the product.

The most updated two to three years edition of Annual Reports of the top 20 real estate developing companies

will be reviewed to find out the production capacity in each of the three segments (Residential, Commercial, Industrial) for the period 1991-1995.

Data of unlisted private developers will not be included. From market observation and informal discussions with experts of the industry, production of I-C buildings for sale, in lieu of self-use, by unlisted companies is negligible.

- 2.3.2 To find out the business definition, market environment, and development pattern of I-C buildings since its introduction in 1989.

Since the product is not statutorily defined from Industrial buildings, but are just vaguely termed by the industry, a definition is required and would be drawn based on common features found in blocks recognised as I-C buildings.

The development pattern of the product from its introductory stage to growth stage will be studied to reveal the market force behind the change, and to detect its future trends.

The author will try to obtain from the major market players detail information, sales brochure, price list, and sales data of all I-C buildings completed or in the pipeline. It is estimated that about 30 buildings have

been completed since 1989, and about 10 are in the pipeline.

Accuracy and comprehensiveness of this data collection will depend on the cooperation of the developer companies. The data will also be supplemented by other informal sources like industry experts' observation, real estate agency's advertising in newspaper which contain the most updated price data. The sales situation can be obtained by calls to the sales department enquiring on units available.

2.3.3 To analyse the marketing strategies of the major players in the I-C building niche.

This is important in understanding the structure and operation of the market, the different customers targeted by each company, and the future product trend. These will be compared with customers' needs and expectations to find out any shortcomings, and to develop future strategies.

Personal interviews of the managers of major companies will be conducted. Besides formal interviews, informal discussions will be carried out with professionals in the industry to find out the operation and strategies of the developers. Because of company policies, many of these industry professionals would prefer their identity not be revealed. The analysis will also base on market observation and other literature, e.g. stock analysts' reports, trade journals.

- 2.3.4 To collect information for the following objectives 2.3.5 to 2.3.9, a questionnaire survey will be carried out on a sample of 500, with 100 random sample each on 5 chosen I-C buildings by different developers, and at different locations:

<u>I-C Building</u>	<u>Location</u>	<u>Developer</u>
Harbour Centre	Hunghom	Cheung Kong
Metro Centre I	Kowloon Bay	Sino
Kodak House	Quarry Bay	Sun Hung Kai
Eastern Harbour Centre	Quarry Bay	Tai Cheung
Kowloon Plaza	Cheung Sha Wan	Sino

A copy of the questionnaire is attached at Appendix 1. The question number of the questionnaire is indicated in bracket against each of the objectives listed below.

- 2.3.5 To find out the customer profile, in terms of trade, product size (area) required, type of use put to the product (office/ workshop), customer company's stage of development, repeat customer, customer trades expanding, and customers' pre-purchase information source.

This information will be important in formulating future marketing plans.

- 2.3.6 To find out rating of the major market players/ brand. This will be evaluated against the developers marketing strategy and their desired market position.

- 2.3.7 To find out rating of several well established I-C buildings. This will be compared against the product features provided to evaluate on the success and importance of the features.
- 2.3.8 To find out rating of attributes in purchasing an I-C property. This is vital in formulating future product design and marketing strategy.
- 2.3.9 To find out the competitive advantage of I-C buildings over the products it is to substitute : the traditional industrial buildings and the office buildings. It is important to preserve these advantages in order to expand the market of I-C buildings.
- 2.3.10 To analyse the future I-C building market niche : the business problems, future customers, strength, weakness, opportunities and threats of the I-C BUILDING PRODUCT.

The NICHE INDUSTRY will be viewed as a whole, and a marketing strategy for the NICHE INDUSTRY will be proposed, instead of one for each of the market players.

CHAPTER III

FINDINGS FROM LITERATURE SURVEY & INTERVIEW

3.1 General Market Environment of the Real Estate Industry

All three segments of the industry (Residential, Commercial, Industrial) are dominated by a handful of oligopolistic players. The estimated production from 1991-1995 of the top 20 publicly listed real estate developers are listed in Figure 3.1.1. These are compiled from information contained in the latest company annual reports available (1991 or 1992).

Production of the Residential market segment takes up 66% of the 7.2 mn sq.m. 5-year total of the 20 companies, Commercial segment 24%, and Industrial segment 10%.

The Residential segment is by far the golden Cash Cow during the recent years. It is dominated by 7 developers: Cheung Kong, Henderson, New World Development, Hang Lung, Sun Hung Kai, Hopewell and Sino.

The Commercial segment is dominated in 1992-93 by Wharf, whose huge Time Square project occupies almost 20% of the market share. Most of the 1.72 mn sq.m. total Commercial production are on Retail areas such as shopping centres associated with the many major residential developments in the new towns. Office areas take up a smaller proportion.

In the Industrial segment, only two developers have invested more heavily. Sun Hung Kai stocked up 232,342 sq.m. of Industrial land, at 27% of its total land bank. Sino and sister company TST Properties jointly hold 111,373 sq.m. of Industrial land, at 25% of their total land bank. Both are substantially higher than the 10% average of all top 20 developers.

Wharf (Holdings) and Swire Pacific also build large volumes of Industrial buildings during 1991 to 1995 (88,290 and 98,952 sq.m. respectively), but these are primarily for 'self-use' by the companies' associated businesses such as aviation, retailing. Since the products are not available in the market, they will not be included in this study.

Fig. 3:1:1 Estimated Production of Major Real Estate Developers in HK for 1991-1995

	Residential Production (s.m.)	Commercial Production (s.m.)	Industrial Production (s.m.)	Remarks
Cheung Kong(Holdings) Ltd	1,502,910	129,000	39,476	Kingswood Villas at Tin Shui Wai will provide 950,000sq.m of housing area between 92-95. Property sales account for 53% , associated companies 28%, of the HK\$5.7b profit in 1991.
Henderson Land Dev Co Ltd	961,348	61,469	8,294	Substantial land bank (1.56mn sq.m) with 73% land in NT. Specializes in small sizehousing. 78% of production in NT in 1991. Also diverge into hotel development.
New World Dev Co Ltd	404,553	128,965	19,702	Core Businesses are hotel, property investment and property development. Residential development concentrates at medium size apartment at good locations, such as mid levels and Discovery Bay.
Hang Lung Dev Co Ltd	388,358	18,791	25,994	The company develops all ventures on its own. 78% of its 500,000 sq.m land bank are zoned residential. It also owns 400,000 sq.m investment property.
Sun Hung Kai Properties Ltd	381,041	232,342	232,342	Substantial landbank (3.3mn sq m) with 42% residential and 26% industrial. Owns a large portfolio of shopping centres. Property sales account for 57%, rental 30% of the HK\$5.3bn profit in 1992.
Hopewell Holdings Ltd	267,420	279,840	-	Only 13% of residential production for housing, the rest for hotel use. The company concentrates on civil infrastructural work in Asia.
Sino Land Co Ltd	129,645	66,475	67,844	Develops large housing estates in the NT, as well as smaller but prime urban sites. Fetches premium prices while tightly controls costs. About 40% of its 670,000sq.m of landbank in HK are zoned residential. Also owns 200,000 sq m land in China. Property development accounts for 62%, share investment 19% of its HK\$1.6bn profit in 1992.
Tsim Sha Tsui Properties Ltd	103,548	31,103	43,529	Previously Sino Realty & Enterprise Ltd
Wharf (Holdings) Ltd	-	340,706	88,290	A diversified Company, Real estate development concentrates on higher quality large scale projects. Time Square is a major commercial project completed in 1993.
World Int'l (Holdings)	96,000	49,256	-	Parent company of Wharf, it undertakes selective Ltd production of good quality projects at prime locations.
China Overseas Land & Investment Ltd	88,195	30,708	-	A mainland Chinese company listed public in 1992, it owns a total of 300,000 sq.m of property in HK(17%), Shenzhen(58%), and Shanghai(25%).
Hongkong Land Holdings Ltd	-	33,643	-	Owns a large portfolio of high quality office in Central (400,000 sq.m), and premium retail space (53,000sq.m). Annual production of new property shrunk since 1987.
Hsin Chong Properties Ltd	277,000	6,255	-	Property holding overseas.
Swire Pacific Ltd	73,395	233,557	98,952	Aviation accounts for 69%, property sales 20%, of the HK\$5.8bn profit in 1991. Also develops property in Florida & Hawaii.
Allied Properties (HK) Ltd	82,010	10,425	34,608	
Tai Sang Land Dev Ltd	14,329	-	-	
Hysan Dev Co Ltd	-	37,860	-	
K. Wah Int'l Holdings Ltd	29,121	4,120	-	
Emperor Int'l Holdings Ltd	5,153	24,755	-	
Total	4,784,026 (66%)	1,719,270 (24%)	719,031 (10%)	Total 7,222,327 (100%)

3.2 Business Definition of I-C Buildings

Not all buildings constructed on Industrial lots can be considered as I-C Buildings. Since traditional industrial buildings is allowed to have 30% area used as offices, the I-C buildings may be defined as blocks where over 30% of areas are used as offices, and are explicitly designed to allow so.

By studying the product features of about 30 I-C buildings in the market, some common product features are identified and can be used to differentiate the product. These are listed below. Details of the studied blocks are shown in Figure 3.4.1.

- Located at the better areas of an Industrial district, e.g. on main streets, near MTR station, on waterfront.
- Modern external outlook.
- Proper pedestrian entrance lobby with security control, seperated from cargo loading lobbies. More passenger lifts.
- Air-conditioned lift lobbies and corridors.
- Larger windows, even full height windows or curtain walls.
- Designed hoods for window air conditioning units without ruining the external appearance. Some are provided with central air conditioning.
- Smaller unit size than tradition factories, at about 100 sq.m.. Layout allows combination of several units to form a bigger continuous space.
- Lower headroom and floor loading (about 3m and 150 psf) than industrial buildings (about 4m and 350 psf).

3.3 Market Environment of I-C Buildings

As a product designed and priced between the industrial and Grade C office buildings, the I-C building is targeted at customers using or would be using these two competitive buildings.

According to Statistics Department's forecast, economic activities in Hong Kong will be growing by 12.5% in 1993 and 13.7% in 1994. Demand of office space of all grades is likely to increase accordingly. Supply of all grades of offices is forecasted at 472,000 sq.m. (7.7% of total stock) and 833,000sq.m. (12.6%) for 1993 and 1994. Supply of Grade C offices for 1993 and 1994, however, is forecasted to be 111,000 sq.m. (9%) and 119,000 sq.m. (9%).¹ The shortage of Grade C office supply, and overspill of customers, provide a market for I-C buildings.

The Factory market, on the other hand, shows an oversupply, with vacancy rate increasing steady from 4.5% to 6% over the past 5 year (Figure 1.2.3). Supply forecast is low, at 1.7% of total stock for 1993 and 2.5% for 1994.¹ Demand shows no sign of rising. Shortage is thus not anticipated. To attract customers from Industrial buildings, the I-C buildings have to offer product advantages over the competitive product.

As outlined in 3.1 and Figure 3.1.1, there are about 10 larger players in the Industrial segment, and 6 to 8 of these are producing I-C buildings alongside with traditional

1. Hong Kong Property Review 1993, Rating and Valuation Department

industrial buildings. Sun Hung Kai and Sino are the major players, with the Industrial land bank taking up 27% and 25% respectively of the company portfolio. It is estimated that within the Industrial market segment, Sun Hung Kai takes up 25% of the market share, and Sino about 10%. It is also estimated that half of that market share is taken up by I-C buildings, and the proportion will be increasing in the future.

Other players who historically maintain a mix of products in all segments, and are not particularly concentrating in Industrial buildings are : Cheung Kong, with 39,476 sq.m. Industrial land at 2.3% of the company land bank; Hang Lung, with 25,994 sq.m. at 6.5% of land bank; New World Development, with 19,702 sq.m. at 3.6% of land bank.

Each and every I-C building will exhibit its unique advantages in location, transport, view, design feature and pricing. Products from the same developer, however, often contain similar features that differentiates from other brands. For instance, Sino's products are often grand, bulky, motif-cladded, and with internal light wells. Sun Hung Kai lowers the lorry loading area to the basement, and allow more generous ground floor pedestrian entrance.

3.4 Development of the I-C Buildings

It is estimated that about 40 I-C buildings have been built from 1989 to 1993, and about 10 are now in the pipeline, to be completed by 1994 to 1995.

Detail information in the form of sales brochure, price lists and building plans of 30 of the completed buildings were obtained from the developers. These are analysed and summarised in Figure 3.4.1. The list is by no means exhaustive of all I-C buildings produced.

During the introductory stage of the product from 1989 to 1991, production was slow, at an average rate of two blocks per year. The pioneer buildings were sold at HK\$800 - 1100 per sq.ft., about 10% above market price of Industrial buildings. Since land cost was as low as HK\$60 - 150 per sq.ft at 1986, profit to the early developers such as Tai Cheung, Cheung Kong, New World Development, could be as high as 300%.

These pioneer developers for various reasons have not expanded in this market. It was the followers, Sun Hung Kai and Sino, who aggressively joined the market in 1990, and led the product to its growth stage. By 1992, about 8 blocks were completed, and pre-sale of another 5 blocks were launched. Competition became more intense. In 1993, about 10 blocks were completed. Although full data is not available, it is estimated that the same amount will be produced in 1994.

With the growth in demand of office space, it is believed by most developers that the product will not reach its

Figure 3.4.1 List of I-C Buildings Completed from 1989 to 1995

Year	Building	Developer*	Location	Features		Parking#	Headroom m	Loading psf	Lifts**	Remarks
				Price HK\$/sq.ft.	Unit Size sq.ft.					
1995	Capital Trade Centre	SHK	Kwun Tong	1600-1900	700-1300	6C,5L	3.7		2P,1C	Near MTR, Medium scale building
1994	Global Trade Centre	SHK	Kwai Chung	1000-1100	700-2000	10C,10L	3.25	150	1P,4C	
1994	National Trade Centre	SHK	Chai Wan	2700						
1994	Free Trade Centre	SHK	Kwun Tong	1600-1800	600-1000	0	2.95	150-250	2C	Near MTR, Medium scale building
1994	Mega Trade Centre	SHK	Tsuen Wan	2800-3400	600-1000	9C,8L	3.5	150	2P,3C	Next to MTR, Medium scale building
1993	Kodak House II	SHK	North Point	2400-3500	2000-5000	33C,30L	3.3	100-200	5P,10C	Waterfront site, Large scale building
1993	Sun Fung Ctr	SHK/NF	Tao Wo Hau	1200-1800	1500-12000		3.85	250		Near MTR & future new rail to China, large scale.
1993	Corporation Square	Sino	Cheung Sha Wan	3500	600-2000	10C,13L	3.3	150	2P,4C	Near MTR, Seaview,curtain wall
1993	Pacific Trade Centre	Sino	Kowloon Bay/ Ngau Tau Kok	2300-3000	800-60000		3	200	1P,12C	Near MTR, renovate existing bldg seaview, large canteen
1993	Seaview Centre	Sino	Ngau Tau Kok	2000-3000	800-6000		3	150	1P,3C	Near MTR, seaview for some units, central units face lightview
1993	Cheung Tat Centre	Cheung Kong	Chai Wan	2200	700-1600	12C,10L	3.15	150	1P,3C	Next to MTR, large lobby, full height windows
1993	New Trade Ctr	SHK	Shatin							
1993	Trust Centre	SHK	LaiChi Kok	2200-3200	450-1500		3.5	150		Next to MTR, medium scale building
1993	Kwai Wu Ind	Cheung Kong	Kwai Hing	900-1500	200-2700	6C,6L	3.77	150		Far from MTR, no view, decorated lobbies
1992	Charm Centre	SHK	Lai Chi Kok	1500-1600	1200-2500		3.96	150		Next to MTR, medium scale building
1992	Vogue Centre	SHK	Cheung Sha Wan	1500-1600	1200	2C,1L		150	2P,1C	Next to MTR, medium scale building
1992	Eastern Harbour Centre	Tai Cheung	Quarry Bay	1800	800-3250	31C,35L	4.8	350	3P,6C	Waterfront site, seaview
1992	Cornell Centre	Sino	Chai Wan	2500-3000	1000-5000		3.8-4.5	150-300	1P,5C	Seaview, near MTR
1992	Metro CentreII	Sino	Kowloon Bay	3000	500-1200	19C,10L	3.8-5.2		4P,5C	Next to MTR, central light well to increase window area for small units
1992	Kowloon Plaza	Sino	Cheung Sha Wan	3000-3500	800-10000	11C			2P,3C	Next to MTR, shops at G/F
1991	Hung Tat Ind Bldg	Cheung Kong	Kwun Tong	700	650-3300		3	150	1P,2C	Near MTR
1991	Hung Tai Ind Bldg	Cheung Kong	Kwun Tong	700	600-2400	12C,11L	3	150	1P,4C	Near MTR
1991	MP Ind Centre	New World/ Evergo	Chai Wan	800	600-1300		3	150	2P,6C	Waterfront site, seaview
1991	Metro Centre I	Sino	Kowloon Bay	2000	800-1500					Next to MTR
1990	Leader Bldg	Cheung Kong	Tsuen Wan	600-800	2000-10000	14C,15L	3.5-5.5	150-300	2P,4C	Designed for semi-industrial use
1990	Wang Lung Bldg	Cheung Kong	Tsuen Wan	600-750	1200-3600	25C,16L	3	150	1P,6C	Designed for semi-industrial use
1989	Westland Ctr	Tai Cheung	Quarry Bay	800	2000-10000	23C,23L	3.16	200-400	3P,5C	Near MTR, no view, seprate lobbies
1989	Harbour Ctr	Cheung Kong	Hunghom	1000-1100	1800-18000	48C,48L	3.25-4.14	150-250	4P,12C	Harbour view, large building, glossy exterior, passenger lobby, internal layout similar to factories

* SHK : Sun Hung Kai, NF : Nam Fung
 # C : Carpark, L : Lobby park
 ** P : Passenger lift, C : Cargo lift

saturation or maturity stage in two or more years time.

By examining the detail features of the I-C buildings listed in Figure 3.4.1, a trend of development is identified to give an insight to future development.

3.4.1 Location

Quarry Bay, Hunghom, Cheung Sha Wan and Chai Wan were the first area where I-C Buildings were built. Historically these are early industrial areas. By mid 1980's manufacturers well established in these areas have integrated either upwards to trading and exporting, or downwards to distributing and retailing, or both. The commercial activities gradually replace the manufacturing activities, which was moved further 'inland' from the main streets. For example, the garment production line was moved from Cheung Sha Wan to 'back-up' factories at Tsuen Wan, leaving premises in Cheung Sha Wan as trading offices. Since 1987, the production lines are moved further north to China.

As lots in these established areas are limited, I-C buildings have to spread out to other areas with other advantageous features, e.g. Kowloon Bay, Kwun Tong (along the MTR line), reclaimed waterfront area at Chai Wan and Quarry Bay. These sites have the advantages of view and convenient public transport - traditionally irrelevant factors to industrial buildings but vital factors for office buildings.

3.4.2 Product Features

The first generation of I-C buildings, notably the Westland Centre and the Harbour Centre, was by large a mere improvement of traditional industrial buildings, although the essential concepts were laid.

Traditional industrial buildings were designed for handling and manufacturing of goods. People of of secondary concern. At the I-C buildings, people's use of the building was given as decent a recognition as the cargo's. Passengers now have their own entrance, waiting lobby and lifts. The exterior of the building is more refined. Otherwise the layout, unit size and internal finishes were as basic and functional as factories.

Sino pioneered the second generation of I-C buildings. The Metro Centre I, completed in early 1992, with elaborate granite cladded grand entrance lobby was a stun to the market. It was sold at a price comparable to office buildings.

The other developers soon increased the Added Value of the product by improving the design features to near-office standards, in order to compete and to charge a higher premium. Thus Sun Hung Kai used central air conditioning, curtain wall and marble lobbies in Kodak House, and Cheung Kong introduced full height windows at Cheung Tat Centre at Chai Wan.

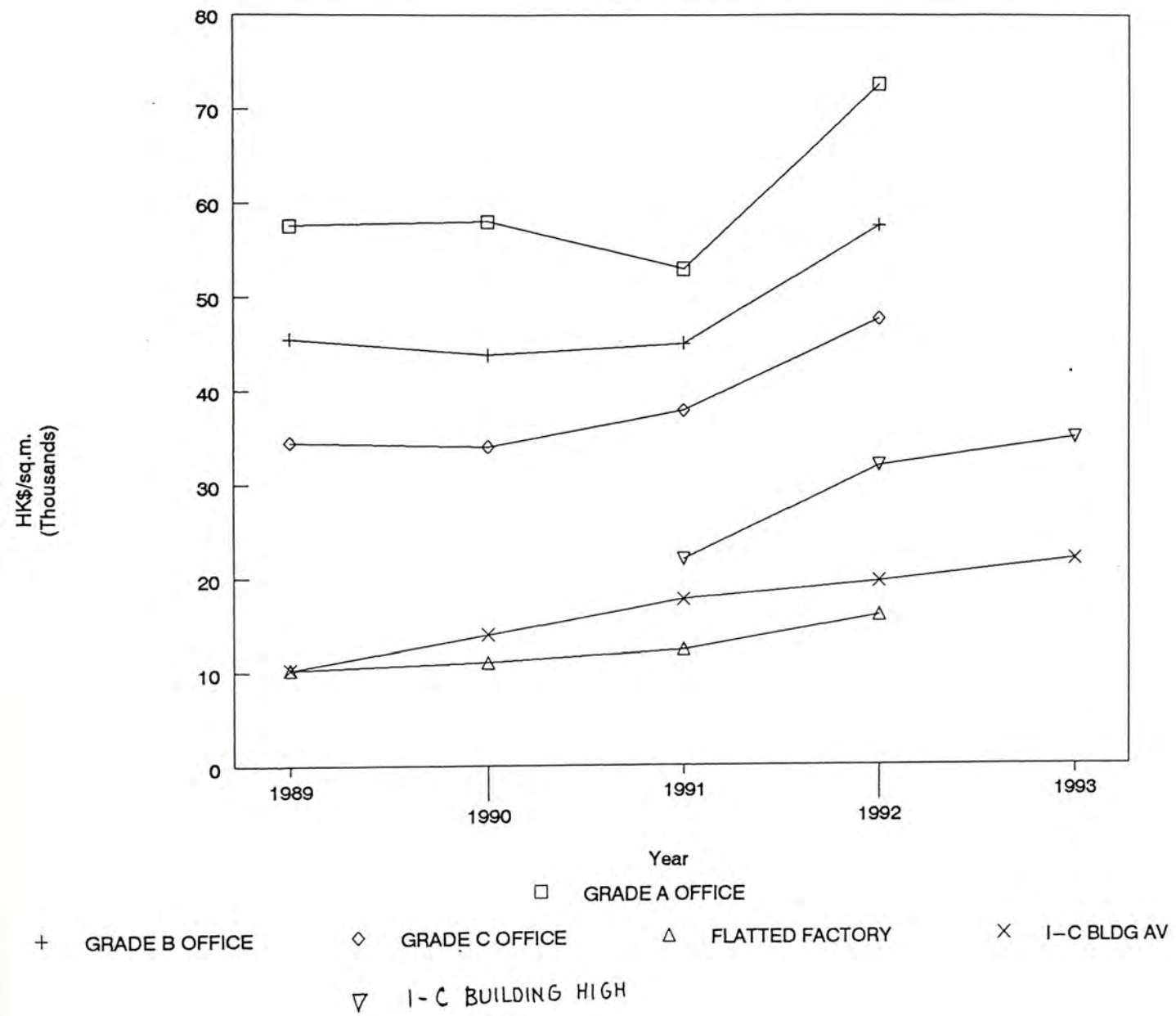
3.4.3 Pricing

Because price statistics of I-C buildings cannot be differentiated from genuine Industrial buildings in the Government statistics, an indicative price for I-C buildings is calculated from data gathered on the 25 buildings listed in Figure 3.4.1. The average price and the highest price are plotted against the Government statistics of factory and office prices in Figure 3.4.2.

Price shows a general upward trend. It has been set between the Grade C offices and Factory buildings, with the average skewed near the Factory's price. The highest prices of I-C buildings, tagged on products by Sino, are very close to the Grade C offices.

Individual product pricing inevitably depends on location, demand and competition in the locality.

Figure 3.4.2 OFFICE, INDUSTRIAL & I-C BUILDING PRICES



3.5 Competitors Analysis & Marketing Strategies

This section attempts to analyse the marketing strategies employed by the major players in the I-C Building market. In most cases these are consistent with the companies' strategy in the other market segments of Residential and Commercial properties.

The analysis is based on personal interviews, informal discussions with industry experts, market observation, and other literature, such as stock analysts' reports.

3.5.1 Sun Hung Kai Properties Ltd

The largest player with 232,342 sq.m. of industrial land reserve. Although Mr Alfred So, the Sales Department Manager, declined to comment on the percentage of the reserve that will be used for I-C buildings, it is estimated from the details of the lots that about 50% has the potential.

According to comments in the 1992 report by stock researcher Barclays de Zoette , Sun Hung Kai is performing as market leaders in a few market segments: luxury residential, commercial retail, and industrial.

Sources from within the company revealed that formal customer feedback is actively sought via regular interviews with its customers. A team composed of the Managing Director and senior executives carries out the

interviews personally. Informal channels of market research include subsidiary Management companies who is in day to day contact with customers.

Company grand strategy: Quality leader in all segments it is participating, and charge a premium for that.

The company plans to expand aggressively in the I-C building market. About 10 blocks are under planning. Location is spread out to Kwun Tong, Tsuen Wan and Shatin, as land cost at the pioneer areas of Cheung Sha Wan etc. already rose and competition is keen. Future products will be upgraded to match office standards. Pricing (slightly higher than other brands) and promotion (newspaper, radio and site boards) policy likely to remain unchanged. Keeps a database of existing and enquiry customers. No specific strategy to capture or create new customers.

All 'I' lots for future I-C buildings will be changed to 'I/O' zones, subject to Town Planning Board approval and an acceptable land premium payable to the Government, thus legalising office use.

Details of an in-depth interview is attached at Appendix 3.

3.5.2 Sino Land Ltd & Tsim Sha Tsui Properties Ltd

Details of the 111,373 sq.m. of industrial land held by the two companies are not revealed in the Annual Reports. It is believed that all lots on good locations will be used for I-C buildings to fetch higher profit.

Company grand strategy: Obtain prime location lots at all costs, e.g. lots adjacent to MTR / KCR stations, waterfront sites. This was demonstrated by the company's repeated record-breaking land auction prices. Tightly control costs in all areas by using the very basic material only. Attentively design the building exterior to attract customers. Skim the market by selling at prices up to 50% above market price.

To uphold the high price policy and still attract customers, Sino used a stage selling strategy targeted at speculative customers. Only limited units are sold at each stage. The company informally promises that price MUST go up at the next stage - a promise to speculators that they will make a profit when resell at later stages. In the booming market of 1992 and 1993, an I-C block will be sold in 20 to 30 stages, taking 1 to 2 years. (e.g. Metro Centre I & II, and Corporation Square at Kowloon Bay are estimated to be 70% sold one year after completion, which is two years since pre-sale started.) The selling rate is very slow in a market where other I-C buildings are sold out in weeks or even days. Although return of investment is slower, with this strategy Sino skims the maximum the market can

offer.

The company is also negotiating with the Government on change of some 'I' lots to 'I/O' lots. Up to mid- 1993, no deal is confirmed as the rate of additional land premium cannot be agreed upon.

3.5.3 Cheung Kong (Holdings) Ltd

By far the largest player in the booming Residential segment, the company is not aggressive in the Industrial segment although it maintains a 5th or 6th place in Industrial building production.

Company grand strategy: Medium grade products, medium price to capture the mass market and ensure quick return of cash flow.

In the I-C building segment, little investment is put on product improvement or customer study. (Cheung Tat Centre at Chai Wan, completed in 1993, is the first product upgraded to competitors' standard, although an annual production of 2 -3 blocks are maintained since 1989). Pricing is on medium to low side (Cheung Tat Centre at HK\$2,200 per sq.ft. was sold out in two days, reflecting a low price policy).

Future I-C buildings located in Kwai Chung, Kwun Tong, along MTR line. Not expanded to outer areas like Shatin yet. Huge land reserve in Tin Shui Wai, NW New Territories offers potential if commercial activities spread to the Chinese border area.

3.5.4 New World Development Co Ltd

Since diversified to hotel and other businesses in the mid 1980s, the company restricts investment in real estate, although it still maintains a 4th to 5th position in land reserve.

Company grand strategy: restrict to prime lots in preferred locations where concentration of the company's products precludes or reduces competition (e.g. mid-levels, Discovery Bay), medium grade product and price.

Since building a successful joint venture I-C building project at Chai Wan, the MP Industrial Centre, completed in 1991, the company shied from the Industrial segment until recently. With recession in the global hotel business, and a stagnant Chinese property market in 1993, the company adjusted its policy by increasing moderately its investment in Hong Kong. In 1993 two I-C buildings are planned at San Po Kong and Tsuen Wan, to be completed in 1995.

3.5.5 Tai Cheung Properties Ltd

Although not dominant in production capacity, the company is probably one of the first innovative developers to consciously invent the I-C building, and keep improving in each of its later projects.

Company strategy: carefully plan for customers' needs in each project, minimise risk by acquiring low cost land and exploring new market, conservative in comparison to other developers.

Three I-C blocks were built between 1989 and 1993. Future Industrial venture eyed at Shatin with a newly acquired piece of land at a October 1993 auction.

Details of an in-depth interview is attached at Appendix 2.

CHAPTER IV

FINDINGS FROM QUESTIONNAIRE SURVEY

4.1 Background

Questionnaires were sent to a sample of 500 tenants at five I-C buildings, with 100 tenants randomly chosen from each building. Details of the sample buildings are listed at section 2.3.4.. The questionnaire is appended at Appendix 1.

Three weeks after dispatch of the questionnaires, a total of 72 returns were received (14.4% of the sample):

<u>I-C Building</u>	<u>No. of Return</u>
Harbour Centre	14
Metro Centre I	11
Kodak House	13
Eastern Harbour Centre	18
Kowloon Plaza	16

In this chapter, the survey results will be summarised, correlated, given deductions, and where applicable evaluated against the marketing strategies adopted by the major market players as outlined in Chapter 3.

4.2 Customer Profile

Several characteristics of the customers/ tenants were studied on the assumption that these are the defining factors of the target customers:

- trade of the customers,
- unit area required by the customers,
- the use put to the product,
- first time or repeat customers.

4.2.1 Trade of customers

78% of customers are in the business of manufacturing/ trading, distribution & retailing, import & export. These are sectors requiring office-cum-storage-cum-workshop spaces. Thus is reflected by the fact that a total of 64% of tenants use less than 70% of the area as office, and more than 30% as workshop/ storage.

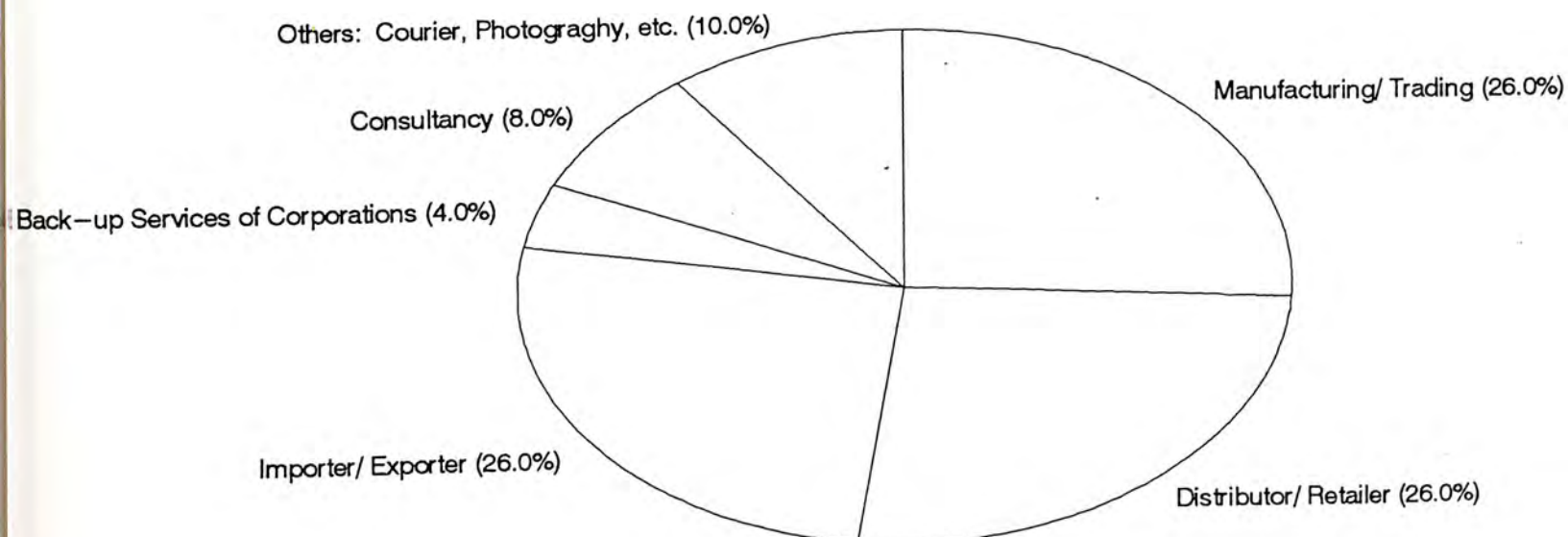
The storage/ workshop needs of these customers may not be met by normal office buildings, which lack the floor loading nor the cargo handling facilities of cargo lifts and lorry parking. While industrial buildings meet these needs, the location and building outlook may not suit the administration section, customer service section and company image of these trading companies, if the companies wish to have all sections under one roof.

18% of the tenants are in the businesses of consultancy, mostly computer, engineering and technological services, and specialised trades like photography. These trades and professional services require larger work space with computers, drafting and other equipments. Traditionally tenants of office buildings, rising rent has driven them to the outskirts of the Central Business District ¹, and apparently some are driven to the lower priced I-C buildings.

1. "In Search of Outer Limits" Francis Bartlett, Asian Property March 1991.

Figure 4.2.1 CUSTOMER PROFILE BY TRADE

TRADE	PERCENTAGE
Manufacturing/ Trading	26
Distributor/ Retailer	26
Importer/ Exporter	26
Back-up Services of Corporations	4
Consultancy	8
Others: Courier, Photography, etc.	10
TOTAL	100



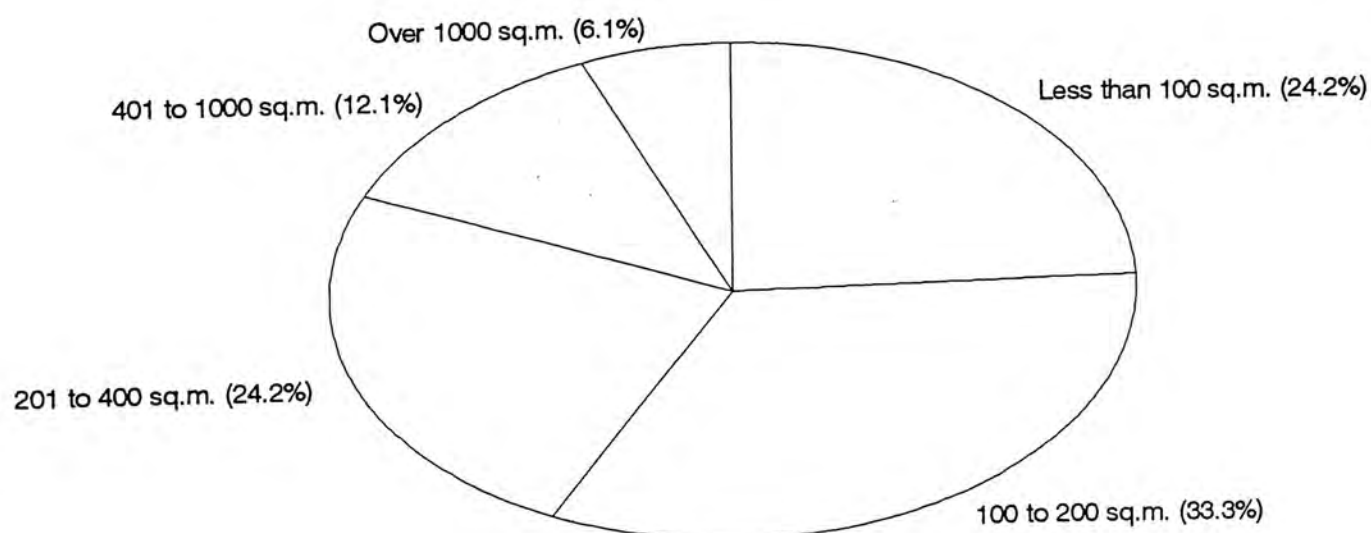
A small portion (4%) of tenants belong to back-up departments of large corporations, eg., maintenance section or training centres of companies like Swire, Sanyo. The I-C building is used as classrooms, workshops and storage.

4.2.2 Unit Area Required

Unit sizes of 100-200 sq.m. are most popular (33.3). Larger unit areas (e.g. 200-1000 sq.m.) can be formed by combination of adjoining units to form a continuous space. Therefor the smallest unit size available will be more critical to customer needs. 24% of customers require units less than 100 sq.m., reflecting a demand for smaller units of say 50 sq.m.. Very few (6%) require large units of over 1000 sq.m..

Figure 4.2.2 CUSTOMER PROFILE BY UNIT AREA

UNIT AREA IN SQ.M.	PERCENTAGE
Less than 100 sq.m.	24
100 to 200 sq.m.	33
201 to 400 sq.m.	24
401 to 1000 sq.m.	12
Over 1000 sq.m.	6
TOTAL	100



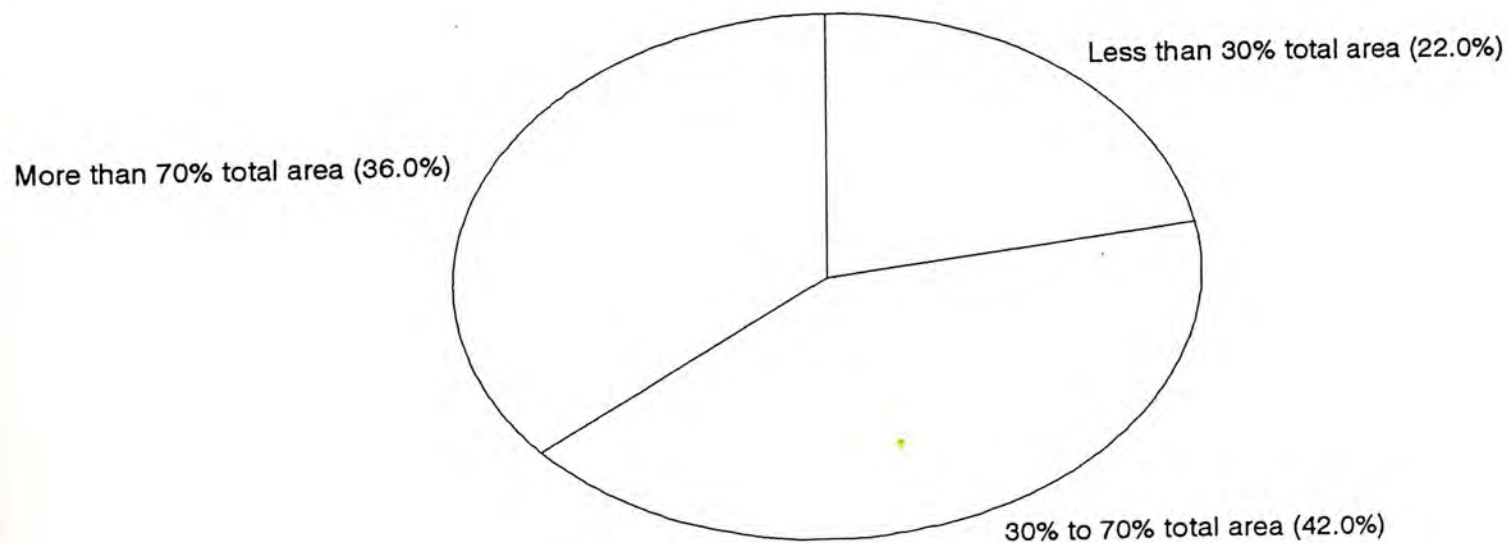
4.2.3 Use of the Unit

22% of tenants comply with the Land Lease restriction of using less than 30% of the area as office. This result may be biased to the high side as tenants recognising the legal obligation may adjust the replies to fall within the legal limit.

42% of tenants use 30-70% of the area as offices, and 36% use more than 70% of the area as office. Thus even if the premises is rezoned as 'I/O' under the Town Planning Regulations, which allows up to 70% area to be used as offices, 36% of the tenants would still contravene the law.

Figure 4.2.3 CUSTOMER PROFILE BY USE OF THE UNIT

OFFICE TAKES UP AREA OF	PERCENTAGE
Less than 30% total area	22
30% to 70% total area	42
More than 70% total area	36
TOTAL	100



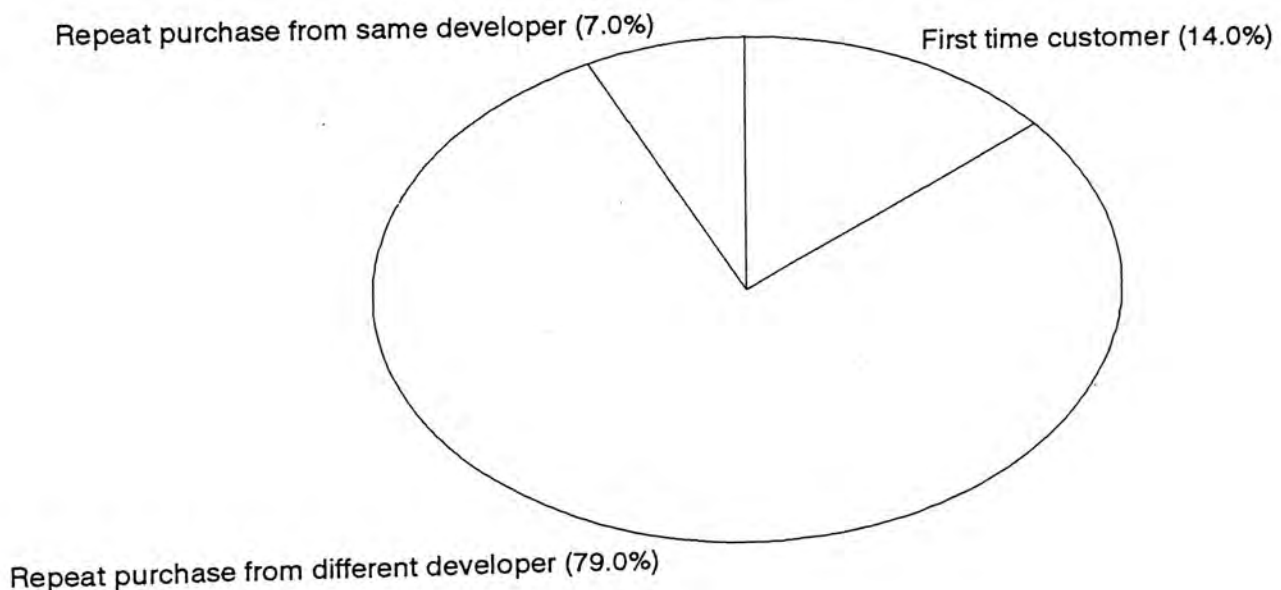
4.2.4 First-Time or Repeat Customers

Only a small portion (14%) of tenants are first time users of industrial/ commercial properties. It is assumed that these users are at the starting or introductory stage of their businesses. Over 70% of the first time customers occupy small units of less than 100 sq.m..

The majority (86%) of tenants have offices previously established elsewhere, probably in industrial buildings or office buildings, before moving or expanding to the surveyed I-C building. It is assumed that these companies are at the developing stage of their businesses.

Figure 4.2.4 FIRST-TIME OR REPEAT CUSTOMERS

CUSTOMER STATUS	PERCENTAGE
First time customer	14
Repeat purchase from different developer	79
Repeat purchase from same developer	7
TOTAL	100



The low rate of repeat purchase from the same developer (7%), and the lack of an outstanding brand in these limited repeat purchases, reflect a lack of brand loyalty in the industrial and commercial segment of the real estate industry. Refer also section 4.7.

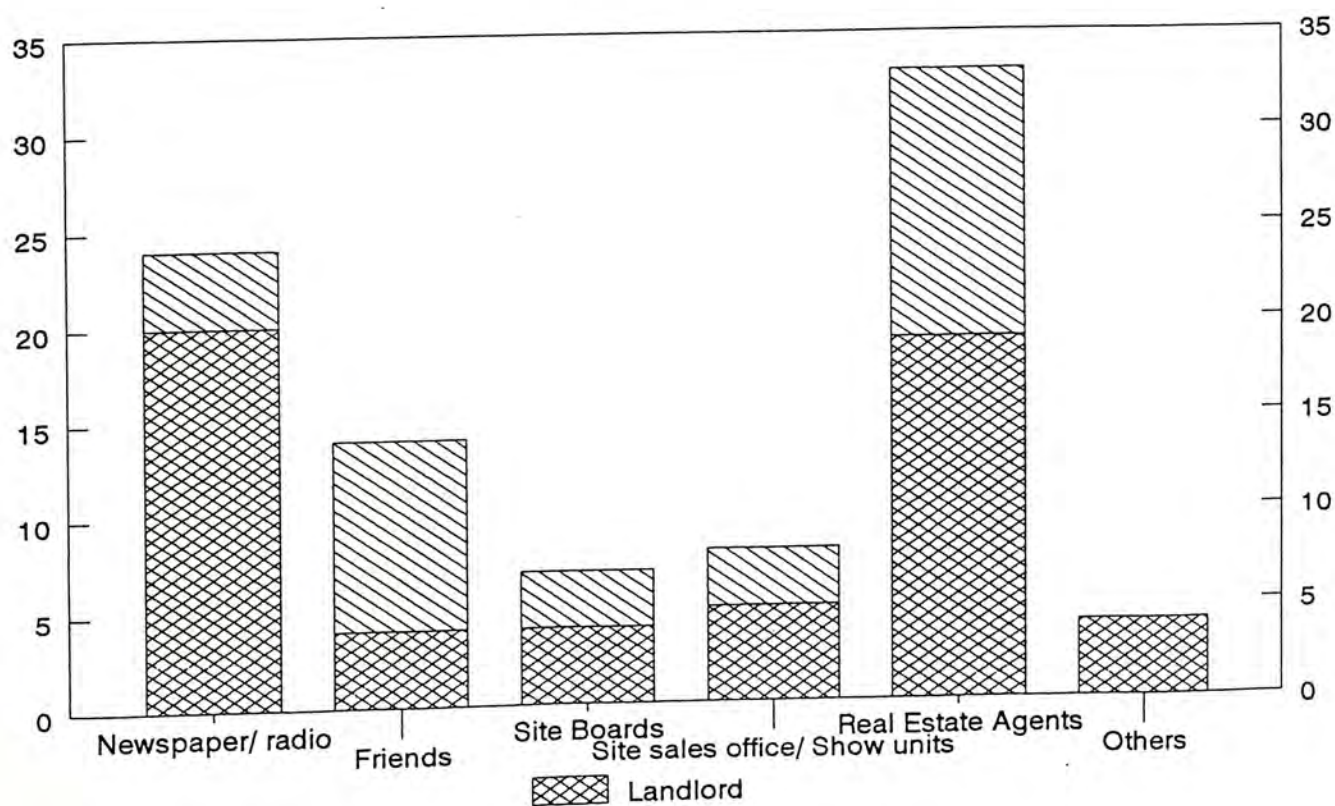
4.3 Pre-Purchase Information Source

Purchasing landlords and renting tenants seek information from different sources.

Purchasing customers use 'Newspaper/radio' and 'Real estate agents' as the primary source of information. Since almost all first-hand sales are available only from the developers, not from real estate agents, the 34% customers using real estate agents are probably second-hand buyers. The 52% customers sourcing from 'Newspaper/ radio, site boards, and site sales offices' are likely to be first-hand buyers. In the fast track market, the timing of the customer making the

Figure 4.3.1 CUSTOMER PRE-PURCHASE INFORMATION SOURCE

INFORMATION SOURCE	NO. OF RETURN		
	Landlord	Tenant	Landlord and Tenant
Newspaper/ radio	20	4	24
Friends	4	10	14
Site Boards	4	3	7
Site sales office/ Show units	5	3	8
Real Estate Agents	19	14	33
Others	4	0	4
TOTAL	56	34	90



decision to purchase will dictate whether he can buy first-hand (when the property is put to the market by the developer), or second-hand, usually at a higher price (when all units are sold out by the developer). Customers with long term planning are likely to source advance information from site boards and newspaper to ensure first-hand purchase at lower cost.

Rental customers (tenants) use 'Real estate agents' and 'Friends' as the primary source of information (70%). The other 29% source from site boards and newspaper/radio to gain advance information on the product available, which would allow more time for comparison between products.

When both purchase and rental customers are considered together, real estate agents are the most popular source of information (37%), reflecting a large second-hand market. Since the surveyed buildings are only 1 to 2 years old, first-hand purchasers of these units are likely to have never used the premises. They purchased for investment and/ or speculation, and put the product in the second-hand market for sale or rent when the price goes up.

4.4 Trend of Customer Trades

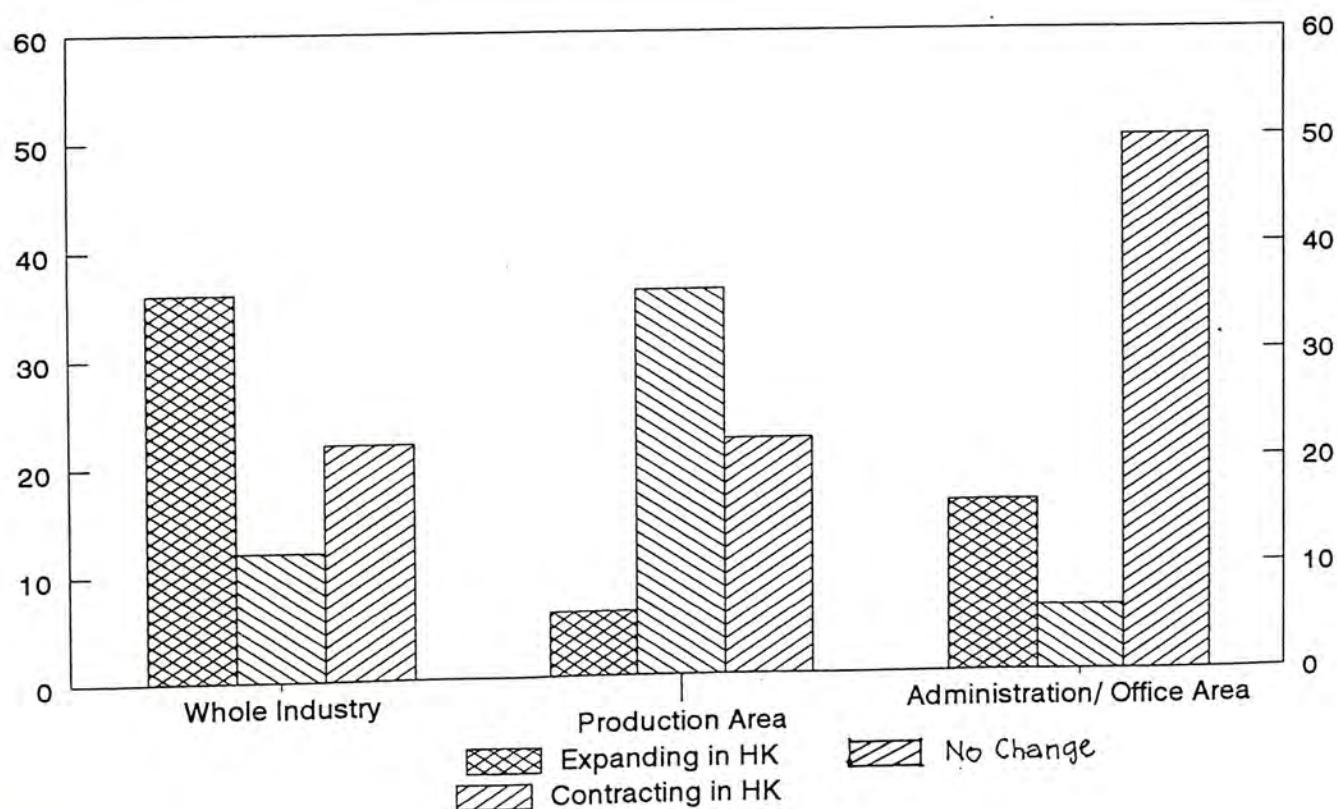
Amongst the tenants surveyed, 51% consider that the industry they are involved in are as a whole expanding in Hong Kong. These are industries of importers/ exporters, trading, retailer and distributors with a Chinese market.

22% of respondents consider that the administration/ office requirement of their industry need expanding in Hong Kong, while 8% anticipated contraction. This shows a net increase in future demand of office space in Hong Kong.

Most industries will have the production line moved away from Hong Kong (56%), thus the demand for factory space is anticipated to decrease rapidly.

Figure 4.4.1 TREND OF CUSTOMER INDUSTRY AND SPACE REQUIREMENT

SPACE REQUIREMENT	NUMBER OF RETURN		
	Expanding in HK	Contracting in HK	No Change
Whole Industry	36	12	22
Production Area	6	36	22
Administration/ Office Area	16	6	50



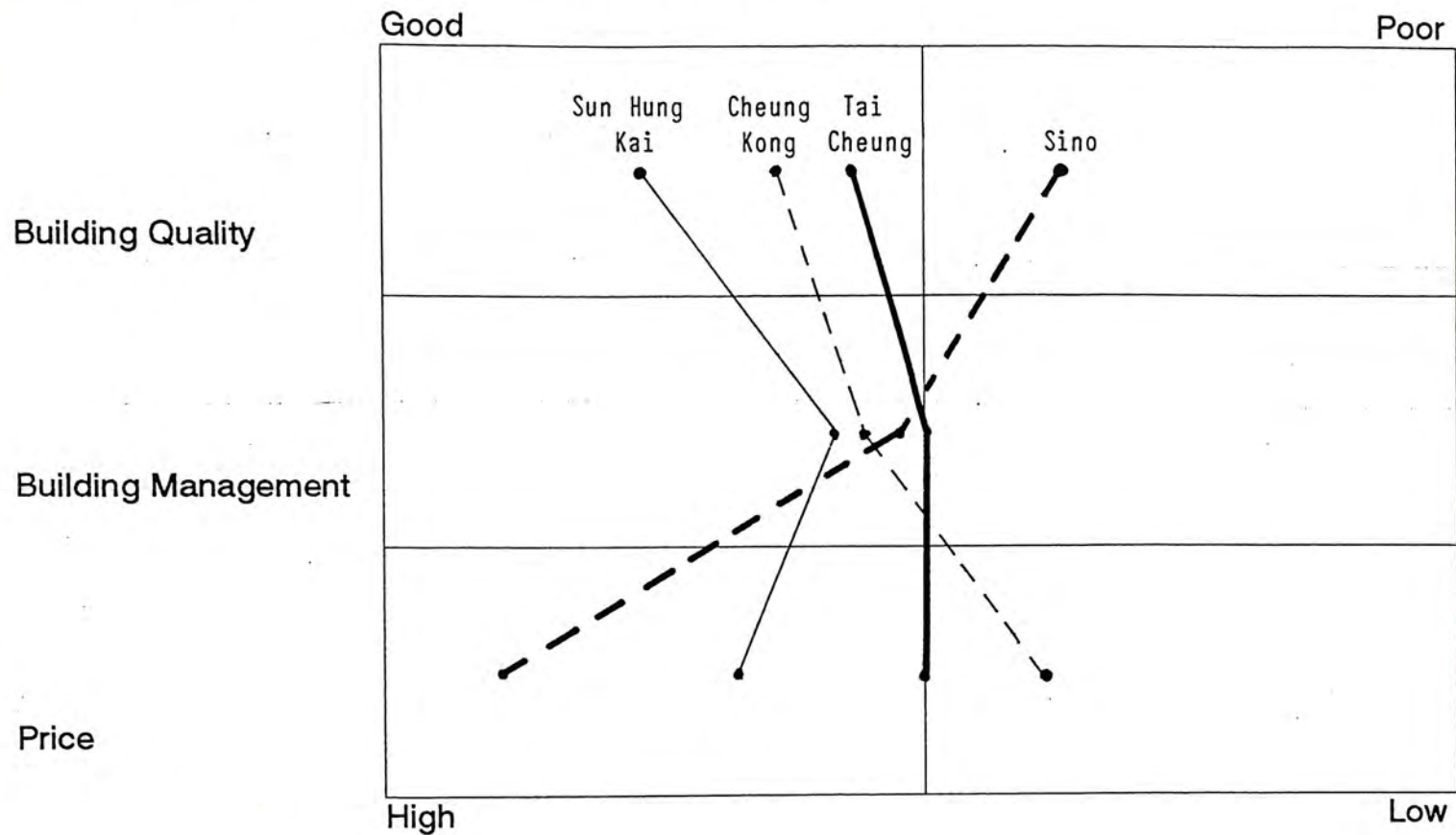
4.5 Rating of Developers/ Brands

Although little brand loyalty is developed in the real estate market, customers do have an opinion on the major developers: the product and the management services.

Since the five I-C buildings surveyed were built by four major developers in the niche market, a rating of the four brands is charted. The results are mostly consistent with the developers' marketing strategy and positioning.

- Sino's high price policy is recognised by customers;
- Sun Hong Kai's efforts in recent years to upgrade its building quality and be a market leader is realised;
- Tai Cheung is perceived as providing medium quality product and management services. Innovation in product design is probably taken for granted by customers;
- Cheung Kong as a brand for the mass market enjoys an above average reputation for quality and management services, while price is perceived as lower than average.

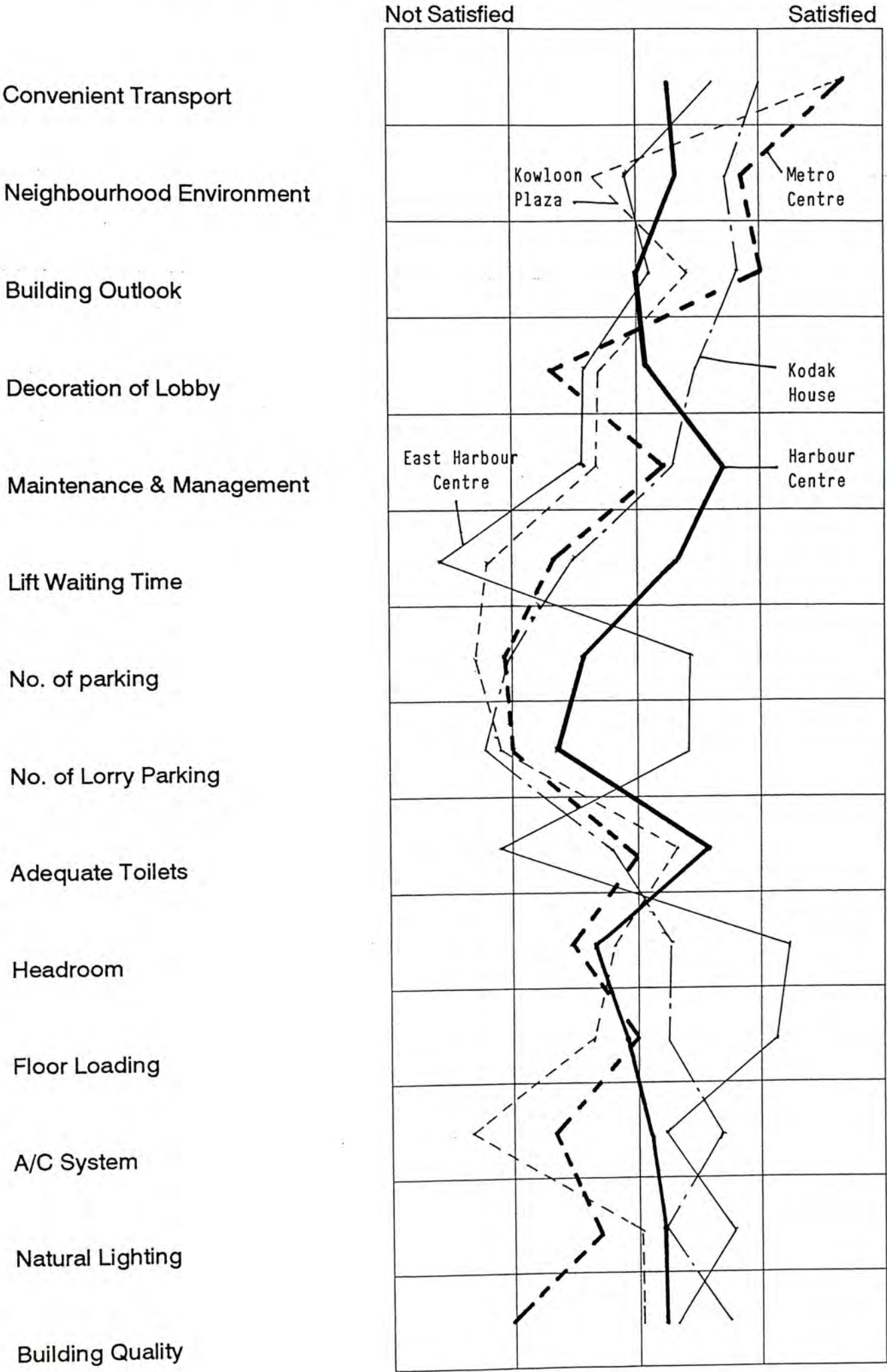
Figure 4.5.1 RATING OF DEVELOPERS/ BRANDS



4.6 Rating of Five I-C Buildings

Customers' perception of the product features of the five I-C buildings are charted in Figure 4.6.1. These are compared to the actual features provided as detailed in the list of 30 I-C Buildings in Figure 3.4.1.

- All five buildings are conveniently located for easy transport, and in an acceptable neighbourhood. Metro Centre and Kowloon Plaza, both built by Sino, are right next to MTR stations and are best graded for easy transport.
- Users of all five buildings are more satisfied with the building outlook than with the internal decoration of lobbies. Metro Centre has the best outlook but worst lobbies, reflecting Sino's policy of 'dressing up' the external to attract customers, and cutting cost on everything else. Kodak House by Sun Hung Kai enjoys good ratings in both.
- Although all four developers are considered to provide medium grade management services (Figure 3.5.1), Cheung Kong's Harbour Centre delivers the best management service amongst the five surveyed buildings.
- Only Cheung Kong's Harbour Centre provides satisfactory lift services with 16 lifts for 12 floors. Kodak House, with 15 lifts, cannot meet the need of its tenants on all 23 floors. East Harbour Centre, with 9 lifts for 18 storeys, is at a near crisis situation.



Adequacy of parking does not seem to relate to the number of parking provided, nor to the buildings' proximity to public transport like the MTR.

Metro Centre and Kowloon Plaza, both located right next the MTR station, cannot satisfy its tenants on parking provision.

Kodak House and East Harbour Centre, located only a few blocks away, both at 10 minutes walk from MTR, and with similar parking provided (approx. 30 carpark and 30 lorry park), have extreme ratings on parking adequacy. The only explanation of the high rating of East Harbour Centre must be the large open air parking lot adjacent to the building.

The conclusion that can be drawn is: demand for parking is not met by the carpark provided in all five buildings. A higher parking ratio is required.

Adequacy of toilets is not a problem except with East Harbour Centre where only one male and one female toilet is provided on each floor.

Average ratings are given to the headroom, floor loading and window natural lighting in all buildings, except that tenants at East Harbour Centre are particularly happy with the high headroom (4.8m) and floor loading (350psf) which allow a cockloft that will double the usable area.

Only at Sino's Metro Centre and Kowloon Plaza are the Air conditioning system rated unsatisfactory. This is a feature that purchasers cannot assess before purchase,

and is therefore given a low budget by the cost conscious developer.

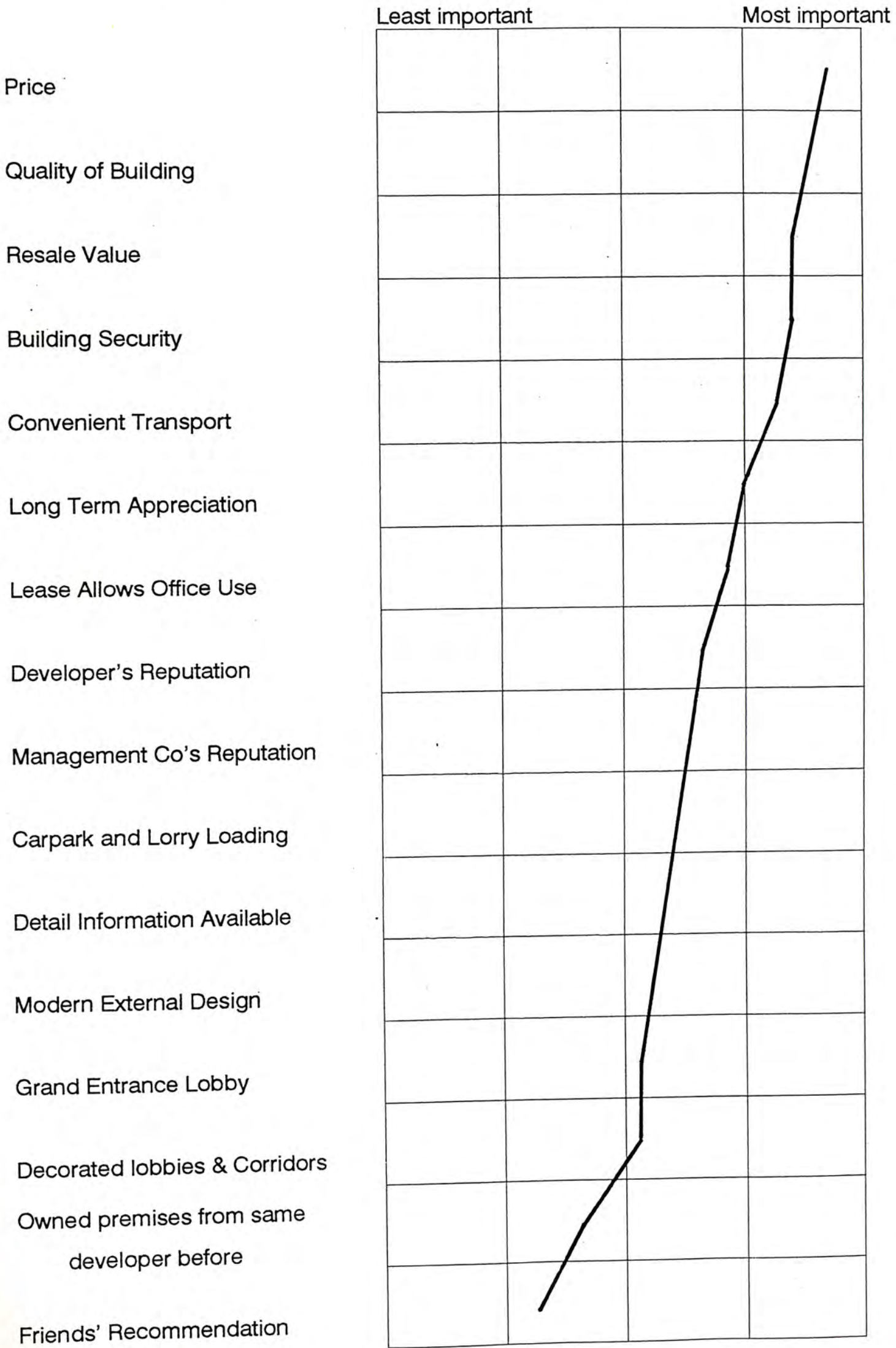
Metro Centre, the highest priced of all five buildings, is given the lowest ratings in building quality. Kodak House, the second highest priced, has the highest rating in building quality.

4.7 Rating of Attributes in Purchasing an I-C Building Property

The ranking of 16 attributes in purchasing an I-C building product is listed in Figure 4.7.1. It is worth noting that:

- The top five attributes are: Price, Quality of building, Resale value, Building security, and Convenient Transport.
- Contrary to the general belief in the real estate industry that the secret formula of success is: 'location, location, location', existing users do consider Quality of building and Building security important attributes.
But buildings of inferior quality and good location still get sold at high prices. Perhaps in a sellers' market, customers can only wish to consider Quality before all choices are snatched up. Limited pre-purchase information on building quality (e.g. the performance of an air conditioning system, energy saving property of windows) also restricts customers' ability to compare products before making a decision.
- Long term appreciation of a property is related to future development of the area, e.g., future road and rail links to the new Airport or to China, future development into an economic nodal area, etc.. It can be deduced that customers putting a heavier weight in this attribute are companies with longer plans of

Figure 4.7.1 RATING OF ATTRIBUTES IN PURCHASING AN I-C BUILDING PROPERTY



expansion. I-C buildings with strength in this attribute should be targeted at customers in the growing industrial sectors.

Although 78% of the surveyed tenants are using the premises illegally, with over 30% area used as offices (Figure 4.2.3), most tenants recognise the importance of the legal status of office use, which is ranked no. 7 in importance. Tenants still use the I-C buildings as offices probably because one or more of the top 6 attributes, notably Price, overrides this concern. See also Figure 4.8.2.

Developer's and Management company's reputation are considered more important than the individual product features like parking, external and internal design.

Although Quality of building is given the second top priority in purchase attributes, customers do not consider availability of detail information important at all (ranked no. 11 in importance). This may reflect either a lack of knowledge, or a lack of confidence in the information provided.

As pointed out in Section 4.2.4, there is no brand loyalty in the market segment. Owning a premises from the same development before, and Friend's recommendations are given the least importance.

When asked about the preferred location and size of any future purchase, most respondents prefer locations near the existing premises, and areas 20 to 50% larger than the existing premises.

4.8 I-C Building Compared to its Two Competitive Products:

Industrial Building & Office Building

The ranking of attributes in which the I-C buildings is considered superior to the two competitive or substitute products are charted in Figures 4.8.1 and 4.8.2.

When compared to traditional industrial buildings, I-C buildings are preferred due to Better location, Convenient transport, Better building outlook, and Better neighbourhood. To summarise, good location and product design are the features to attract customers using or would be using traditional industrial buildings.

When compared to office buildings, I-C buildings have the outstanding advantages of Cheaper price, Convenient transport and Better location. Price and location are therefor the features to attract customers using or would be using office buildings.

The survey also reveals other points:

- About half of the respondents believe that government will not enforce the 30% office rule, the other half believe in the contrary. Three respondents indicated that they had no knowledge of the rule.
- Resale value and Building management/ security, two important attributes in purchaing an I-C property (Figure 4.7.1), are not found to be a strong point of the I-C building in comparison with industrial or office

buildings. Improvement in these areas may attract more customers of both competitive products.

Although all major developers plan to upgrade the exterior and interior decoration of future I-C buildings (section 3.5), customers DO NOT choose I-C buildings over industrial or office buildings because of decoration. However, decoration may be a competitive feature amongst the I-C buildings.

Unit size does not seem to be a concern to the users. The present sizes available, at a minimum of approximate 50 sq.m., seems to suit the market well. Larger units can be formed by combining adjacent units.

Figure 4.8.11 REASONS FOR PREFERENCE OF I–C BUILDINGS OVER TRADITIONAL INDUSTRIAL BUILDINGS

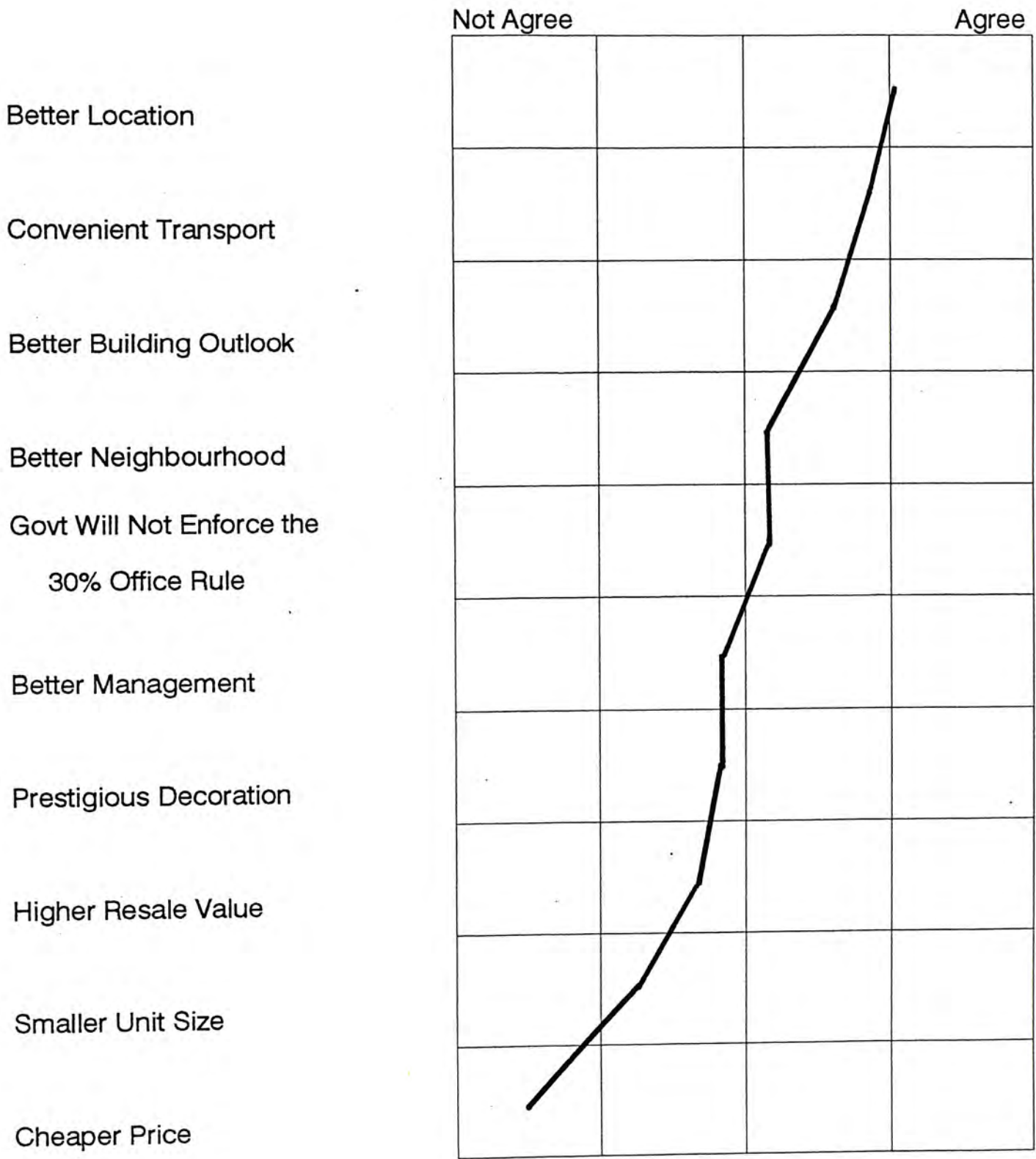
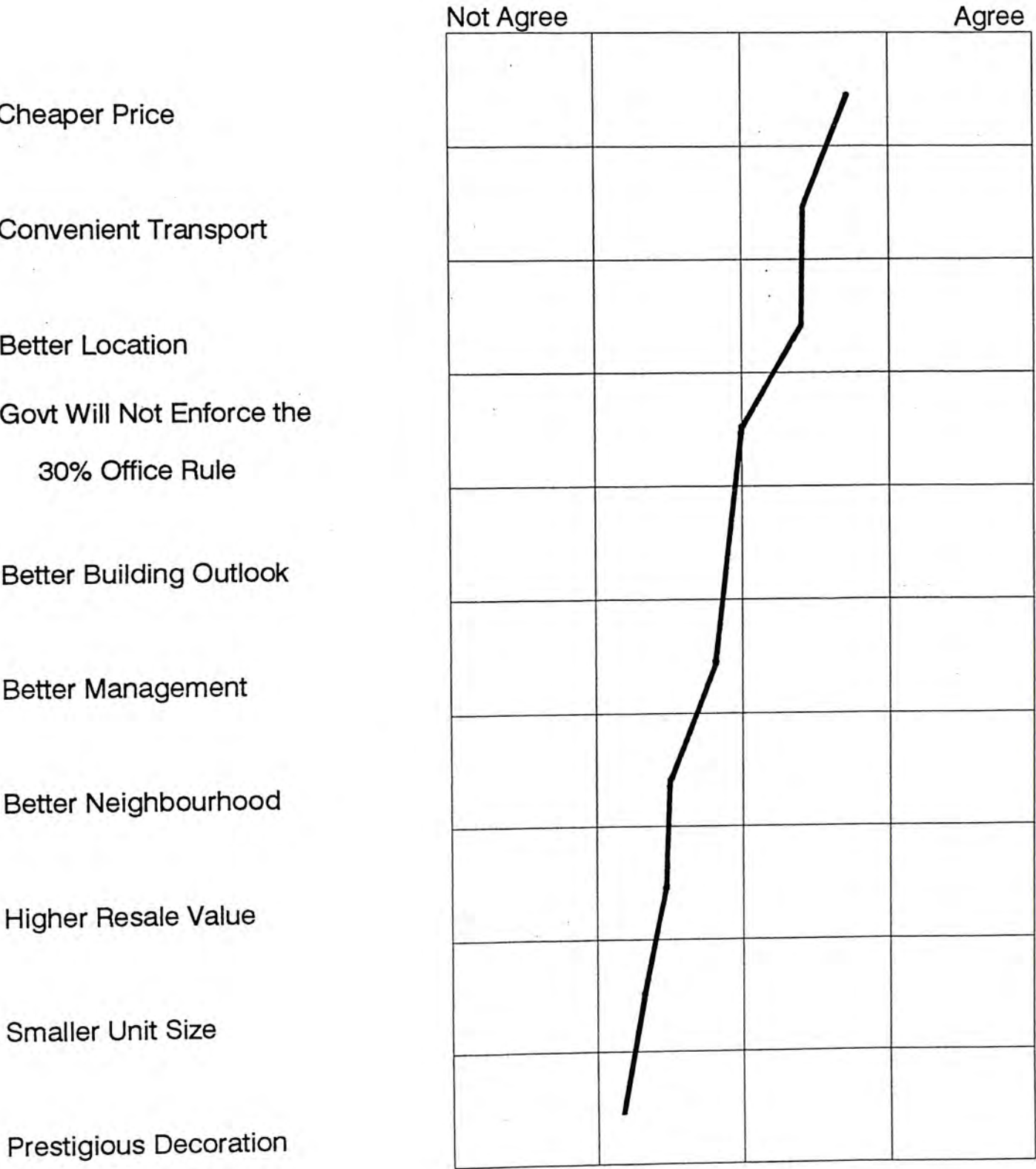


Figure 4.8.2 REASONS FOR PREFERENCE OF I–C BUILDINGS
OVER MEDIUM GRADE OFFICE BUILDINGS



CHAPTER V

ANALYSIS OF THE I-C BUILDING NICHE MARKET

5.1 Business Problems

5.1.1 General Economy

The success of the I-C buildings depend upon the demand of its target customers, which are mainly manufacturers/trading companies, exporter/ importers, distributors/ retailers. The growth of these international business sectors in turn rely heavily on China's economy, whose related trading volumn occuppies over 60% of Hong Kong's economic activity.

5.1.2 Competition from Substitute Products

The two substitute products are traditional industrial buildings and medium grade (Grade B or C)office buildings.

To become competitive, a traditional industrial building has to in good location, and renovated extensively to upgrade its building quality. Because of technical and administrative restrictions, the number of these products is likely to be very limited.

Supply of new office buildings is forecasted by the Rating and Valuation Department as follows:

	<u>1993</u>	<u>1994</u>
Grade A	204,000sq.m.(6% of stock)	398,000sq.m.(11%of stock)
Grade B	157,000sq.m.(10%)	316,000sq.m.(19%)
Grade C	111,000sq.m.(9%)	119,000sq.m.(9%)
Total	472,000sq.m.(7.7%)	833,000sq.m.(12.6%)

Since growth of the general economy is forecasted at over 12%, there is likely to be a shortage in supply of Grade C offices in the coming year.

5.1.3 Lack of Sites

Virgin sites at well established locations are scarce and expensive. Redevelopment sites (pulling down existing building and redevelop a new building) are limited as it is often impossible to purchase all units of an old building from many different owners.

Some less-than-ideal sites can be compensated by design features such as walkway links to improve access to public transport.

New Town sites, e.g. lots at Shatin, are available from the Government for auction from time to time. These offer opportunities and risks depending on when the economic activities will decentralise to the outskirts of Hong Kong.

5.1.4 Legal Status

While negotiation is being carried out between all major developers and the Town Planning Board on change of 'I'zoned lots to 'I/O' lots, up to June 1993, only 13 parcels of land, totalling 74,100 sq.m. have been rezoned.¹ If half of the total 5-year industrial production by the major players (719,031sq.m.) are to be used for I-C buildings (Figure 3.4.1), then only 20% of the land has been rezoned. The legal status of the remaining 80% need to be resolved.

5.2 Target Customers

As the majority of customers (86% as shown by survey results) are not first-time users of industrial or office properties (Figure 4.2.4), and most tenants on moving would prefer locations near the existing premises (Section 4.7), the I-C buildings should be primarily targeted at existing users of industrial and office buildings in the neighbourhood of the new I-C buildings.

Growing industrial sectors that require both office and storage/ workshop spaces should also be targeted. For example, China trade businesses, exporter/importers of growing trades like manufactured articles, machinery and transport equipment, distributors or retailers of products requiring transit storage and/or workshop maintenance.

1. "Loss of Government Revenue- I-C Buildings" Ming Pao 22 June 1993

5.3 Strength, Weakness, Opportunities and Threats of the I-C Building Niche Market

Instead of analysing the 's,w,o,t' of an individual company in the niche market, this section attempts to analyse the niche industry of I-C buildings, when placed in the context of the whole industrial and commercial real estate market segments.

5.3.1 Strengths

Competitive pricing enabled by the lower land cost of Industrial zoned land has been the predominant strength of I-C buildings.

Good locations, convenient transport, and better building outlook are product features attracting customers from its substitute products.

A combination of both the appearance of office buildings, and the cargo handling facilities of industrial buildings meets the requirement of quasi-industrial customers who prefer to have all business functions under one roof.

5.3.2 Weaknesses

Because Industrial lots are inevitably zoned in industrial districts, the neighbourhood environment of I-C buildings is inheritly inferior to that of

commercial districts. Traffic jams, pollution, lack of restaurant, entertainment and shopping outlets are common drawbacks of these areas.

The management and building quality of I-C buildings completed so far have not caught up with the office property standard. These are important factors affecting the Resale value of the properties, and are also priority attributes considered by potential purchasers.

No brand loyalty nor product identity has been established.

5.3.3 Opportunities

With shortage of office supply, demand for I-C buildings is anticipated to rise. The role of I-C buildings in meeting the demand of the economic activities also provide a bargaining clout to the developers when negotiating with the Town Planning Office on application of rezoning to 'I/O' use.

Decentralisation of economic activities, enabled by communication technologies such as computer modem, fax and satellite links, is becoming a trend in Hong Kong as in major cities of Tokyo, London and New York.¹ Sites in New Town areas, such as Shatin, Fo Tan, offer

1. "In Search of Outer Limits" Francis Bartlett, Asian Property March 1991

opportunities in capturing customers migrating in whole or in part to the outer limits of Hong Kong.

5.3.4 Threats

The legal status of I-C buildings remain the biggest threat of the product. To overcome the threat, two hurdles need to be met:

- Approval of change of use by the Town Planning Board. This usually depends on individual site characteristics, technical assessment of the traffic, environmental impact that will be brought about to the neighbourhood, the infrastuctural support (roads, drainage, power and utilities) and the balance of the territory wide planning.¹ In most cases, change of use from Industrial to Office will result in an improved environment and will be supported by Government if other technicalities can be resolved.
- The extra land premium to be paid to the Government. This is by far the critical hurdle. If land premium is assessed as land zoned as 'commercial', which allows full office use, then the cost advantage of I-C buildings will disappear. Since the other product features (good location, building design) can also be offered by office

1. SCMP 15 October 1993

buildings, the I-C product will lose its biggest hedge against the disadvantage of poor neighbourhood, and will lose its competitiveness.

CHATER VI

FUTURE STRATEGY & CONCLUSION

If the I-C building has gone through an introductory stage with its first generation products in 1989-1991, and an early development stage with its second generation products in 1991-1993, the coming two years are likely to witness a late development stage with a third generation product. This product will be outlined in the section on Future Strategies.

As a unique product existing between the price, usage and legal definition of the industrial building segment and the office building segment, the I-C building is expected to be a transient product to be eventually legitimised and included in either one of the two segments - more likely to be the Commercial segment. The gap between the I-C building and Office building is expected to be drawn closer on both ends by legislation, product design and customer usage. When the difference is totally neutralised, the I-C building finally mature into a legal Commercial segment product that meets the needs of its customers. It is anticipated that the process will take a few years.

6.1 Future Strategy for the I-C Building Niche Market

Again, instead of proposing a marketing strategy for individual developers in the market, a strategy is formulated for the whole product industry and is meant to propose a direction for the development of the third generation product, with an aim of capturing the increasing demand of the growing economic activities in Hong Kong. Individual developers with varying company grand strategies is likely to adapt within the market direction to suit their own portfolio management.

6.1.1 Legal Status

The third generation of I-C buildings cannot survive without modifying the land lease zoning to 'I/O' or 'C'. With the quantity of I-C buildings produced each year, the Government has expressed that the situation will not be neglected.

6.1.2 Location

With scarcity of sites in urban areas, some of the third generation I-C buildings will be spread out to areas with good potentials. Purchasers of these premises is likely to expect Long term appreciation . These locations will include:

- New towns where the Government in encouraging decentralisation creates new commercial/ industrial districts with total town planning provisions of

infrastructure, transport, vacant lots, and at relatively low costs;

- Future transport nodal areas. The planned new rail and new highway (Route 3) from Tsing Yi/ Tsuen Wan to China open up opportunities for en-route areas, such as Tai Wo Hau. The Shatin - Cheung Sha Wan highway (Route 16) will enhance spreading of trading activity to Shatin.
- Old areas revitalised by future planning. With the new Airport and new West Kowloon reclamation, adjacent old areas such as Tai Kok Tsui may be revitalised.

6.1.3 Product

Because of keener competition, and a more mature market where customers are more knowledgeable of the I-C product, the third generation product will reflect the pressing customer concerns. Building quality is expected to improve, building management upgraded to match office standards, parking to be increased.

With the change of the whole manufacturing industry structure in Hong Kong, less production work is expected even in the old industrial areas of Kwun Tong, Tsuen Wan. The environment in industrial areas is expected to be improved gradually while trading activities replace manufacturing, and white collars replace blue collars.

6.1.4 Price

Before the gap between I-C building and Office building close in all respects, the I-C building will still enjoy a cost advantage in land cost, allowing it be priced below Office building, and therefore remain competitive. However the price of the third generation I-C buildings is anticipated to be higher than the second due to its legalised status.

6.1.5 Promotion

As competition becomes more intense, more attention and investment will be required in promoting the product to the target customers. As I-C buildings at different locations should be targeted at different customer segments, promotion methods may vary. For instance, fliers may be used if the building is targeted at existing users of industrial or office buildings of the neighbourhood. Where building quality and design is a competitive feature targeted at tenants of traditional factory buildings, site boards depicting the design, and show units should be put up well before sales to attract customers.

Instead of the traditional promotion method of conveying the product information using media like newspaper and radio, future promotions will be more focused on the product advantage compared to competitors, and on the target customers needs.

6.2 Uncertainties

Although the future of I-C buildings appear bright, there still remain some underlying uncertainties which are out of control of the real estate developers.

6.2.1 Legislative uncertainty

The Town Planning Board in its news release at 15 October 1993 announced a change in the lease conditions defined under 'I/O' lots. While since its introduction in 1990, 'I/O' lot leases contain clauses that restricts usage of office of up to 70% of the total floor area. According to Mr. P.Pun of the Town Planning Board, the clause was drafted up at that time to reflect the actual use of the premises by the tenants in I-C buildings. Up to June 1993, the 13 parcels of land that had been successfully been modified to 'I/O' lots fall under the stipulation of these clauses. ¹

The Town Planning Office and the Lands Department may well have realised that enforcing this 70% rule will be just as administration demanding as enforcing the 30% rule on 'I' lots. And as the second generation of I-C buildings are designed to attract Office tenants rather than the quasi-industrial tenants, the use of the premises become biased more on the office side. The 70% office rule, which was easily observed by

1. SCMP 15 October 1993

quasi-industrial users in first generation buildings, now become violated once again.

With this change from 70% to 100% office use under the 'I/O' lots, the extra land premium is due to increase to reflect the value of the property. It is understood from the major developers that negotiation on a premium rate is still ongoing. Full 'Commercial' lot premium is strongly objected by the developers, who argue that discounts should be levied on the inferiorly provided infrastructure, city planning, pollution control and neighbourhood environment.

6.2.2 Political uncertainty

Following the Sino- British Joint Declaration which promises stability and prosperity in Hong Kong in the 50 years following 1997, all new land leases issued by the Government contain clauses that extend the lease expiry dates from 30 June 1997 to 30 June 2047. Although there is no sign of any change or forfeiture to this arrangement, there is still a chance of political unrest or drastic change in Government policy, especially after 1997.

6.2.3 Economic uncertainty

The growth of the target customers of I-C buildings, the trading, exporting, and distributing businesses, are closely tied with the economy in China. Demand of I-C buildings rely in turn on the economic condition of

China. Hong Kong is expected to enjoy an exception trading position with its effecient communication and finance structure as long as China maintains its market economy.

6.2.4 Environmental uncertainty

Availability of land is always a concern in the real estate market in Hong Kong. Scarcity of land has driven land prices up to a level hardly affordable in the residential segment. If demand of I-C buildings far exceeds supply of land, the same may happen in the I-C market niche.

While some of these uncertainties can be minimised by lobbying with the government, most of the uncertainties are out of the control of the developers. However, developers in Hong Kong already started developing ties with the Chinese Government by ways of economic investment and political participation (several of the major developers have been nominated as Consultants on Hong Kong Affairs). These involvements may help the developers to minimise uncertainties in the whole real estate market in Hong Kong.

APPENDICES

1.	Questionnaire	A1
2.	Record of Interview - Tai Cheung Properties Ltd	A4
3.	Record of Interview - Sun Hung Kai Properties Ltd	A6
4.	Photographs and plates	A9
5.	List of References	A17

Price is generally _____ high
 _____ reasonable
 _____ low

Building Management is _____ good
 _____ fair
 _____ poor

12. If you are to purchase another property in an Industrial - commercial building, what do you consider important?

	(least 1 important)	2	3	4	5 (most important)
Developer's reputation	_____	_____	_____	_____	_____
Management Co's reputation	_____	_____	_____	_____	_____
Quality of building	_____	_____	_____	_____	_____
Price	_____	_____	_____	_____	_____
Long term appreciation	_____	_____	_____	_____	_____
Resale value	_____	_____	_____	_____	_____
Friends' recommendations	_____	_____	_____	_____	_____
Detail information available	_____	_____	_____	_____	_____
Owned premises from same developer before	_____	_____	_____	_____	_____
Modern external design	_____	_____	_____	_____	_____
Grand entrance lobby	_____	_____	_____	_____	_____
Decorated lobbies & corridors	_____	_____	_____	_____	_____
Carpark & lorry loading	_____	_____	_____	_____	_____
Convenient Transport(eg. MTR)	_____	_____	_____	_____	_____
Building security	_____	_____	_____	_____	_____
Land lease allows full office use	_____	_____	_____	_____	_____
Preferred location :	_____				
Preferred size :	_____sq.ft.				

13. What do you think about the building you are now occupying?

	(not 1 satisfied)	2	3	4	5 (very satisfied)
Convenience in transport	_____	_____	_____	_____	_____
Neighbourhood environment	_____	_____	_____	_____	_____
External outlook of building	_____	_____	_____	_____	_____
Decoration of lobby, corridor	_____	_____	_____	_____	_____
Maintenance & management	_____	_____	_____	_____	_____
Lift waiting time	_____	_____	_____	_____	_____
No. of parking	_____	_____	_____	_____	_____
No. of lorry parking	_____	_____	_____	_____	_____
Adequate toilets	_____	_____	_____	_____	_____
Headroom	_____	_____	_____	_____	_____
Floor loading	_____	_____	_____	_____	_____
Air conditioning system	_____	_____	_____	_____	_____
Natural lighting	_____	_____	_____	_____	_____
Overall building quality	_____	_____	_____	_____	_____

14. You choose this building rather than a traditional industrial building because of :

	(Not Agree)	1	2	3	4	5 (Agree)
Better location		—	—	—	—	—
Better neighbourhood		—	—	—	—	—
Convenient transport		—	—	—	—	—
Better building outlook		—	—	—	—	—
More prestigious decoration		—	—	—	—	—
Cheaper price/ rent		—	—	—	—	—
Government will not enforce the 30% max.office rule		—	—	—	—	—
Higher resale value		—	—	—	—	—
Better management		—	—	—	—	—
Smaller unit size		—	—	—	—	—

15. You choose this building rather than a medium grade office building because of :

	(Not. Agree)	1	2	3	4	5 (Agree)
Better location		—	—	—	—	—
Better neighbourhood		—	—	—	—	—
Convenient transport		—	—	—	—	—
Better building outlook		—	—	—	—	—
More prestigious decoration		—	—	—	—	—
Cheaper price/ rent		—	—	—	—	—
Government will not enforce the 30% max.office rule		—	—	—	—	—
Higher resale value		—	—	—	—	—
Better management		—	—	—	—	—
Smaller unit size		—	—	—	—	—

--END--

--Chinese University of Hong Kong - MBA Programme--

 Thank you. Please return by fax to Fax No. 7658461,
 or by post to : Iris Kong
 G-1-85, Fairview Park, Yuen Long

RECORD OF INTERVIEW

Date : 7 July 1993
Interviewee : Mr Yuen Ting Wah, Anthony
Property Manager, Tai Cheung Properties Ltd
Mr Chan Hon Sing
Project manager, Tai Cheung Properties Ltd
Subject : Marketing of Industrial - Commercial Buildings

1. Tai Cheung Property Ltd is probably the first developer to purposely build Industrial buildings designed to office standards (later termed in the real estate industry as I-C buildings), to meet the changing needs of its customers.

2. A total of three I-C blocks were built by Tai Cheung up to 1993 : Two blocks on 'I' lots, one on 'I/C' lot. The first block was initiated by the Director, who conducts his own research through observation, informal information gathering, and insight.

3. Company Strategy

Conservative, risk-minimising. The quantity of production may be limited, but every project is planned with a lot of thought, and innovation.

Our products are usually priced slightly higher than the market rate as they are often differentiated from other developers' products by some special features.

The company is fully aware of the illegal use by the tenants. Thus we stopped building I-C Buildings when other developers picked up and built proliferately.

4. Target Customers & Pricing Strategy

Repeat customers and early enquiry customers account for about 30%. We use 'private' sale to early enquiry customers as a test market, before the final price is put to 'public' sale. It is important to open the 'public' sales with the right price, and gradually increase by small percentages. Avoid down-adjusting once the price is made public, as customers will hold the purchase and wait for further slash.

5. Promotion and Timing

We promote with banners and boards on site while building work is progressing to attract early enquiries. Advertise in local newspapers when public sales starts.

Timing of sales depend on the general economy, market situation and company finance. Ideally sales at one year before completion allows a reasonably high price, an earlier return of investment, and suits most customers' planning.

6. All our buildings are managed by our subsidiary management companies. They have a good reputation, as shown by our high rate of repeat tenants.
7. Highlights of the three I-C Buildings developed by Tai Cheung

Westland Centre, at Quarry Bay was the first purpose built I-C Building. Completed in March 1989, it was sold at a price of HK\$800-900/s.f., at a return of over 300%. The re-sell price at mid 1993 was HK\$2000-2500/s.f.. The design was different from all industrial buildings of that time : seperate lift lobbies for visitors and cargo, modern exterior design, etc.. Over half of the tenants relate to the publication industry (Next Magazine, Race Post, Comics), others include back-up offices of large companies (service department and warehouse of Swire Systems, Jardines, Sanyo).

Eastern Harbour Centre at the waterfront of Quarry Bay (next to Kodak House by Sun Hung Kai) was completed in October 1992. Design was improved over Westland Centre. Material hoists were deleted. Finishes upgraded, and modern external design captures the panoramic seaview. High headroom (4.8m) and high floor loading (350 psf) allows building in a cockloft workplace, which means doubling the floor space and was a most favoured bonus. Price at HK\$1800-2000/s.f. was higher than market price at that time. At least 10% of tenancy are same or related tenants of Westland Centre.

Peninsula Square at Hunghom is completed in July 1993. It is the only proper office building built on 'I/C' lot in this industrial neighbourhood. Ample lorry parking allows quasi-industrial use. Price at HK\$4000/s.f. is well above the 3-year old I-C building (Harbour Centre) across the street, but is lower than the Grade B-C offices at TST which is the nearest alternative for offices. Sales was satisfactory.

8. Future outlook on I-C Buildings is good, although the future generations will need to be legalised by change of zoned use.

--END--

(Post interview notes: The optimistic view of Tai Cheung on the I-C building market can be reflected in their successful auction of a piece of 'I' lot at Shatin in Oct 1993.)

RECORD OF INTERVIEW

Date : 13 October 1993

Interviewee: Mr Alfred So, Manager, Sales Department,
Sun Hung Kai (SHK) Properties Ltd.

Subject : Marketing of Industrial - Commercial Buildings

1. SHK has been building industrial buildings for over 20 years, with the standard improving consistently to meet rising customer needs. It is a evolution process. SHK did not 'start' building I-C buildings from a certain date.
2. If a demarcation of traditional Industrial buildings and the I-C buildings must be drawn, you can refer to the naming of the buildings. The older generation of industrial buildings are named with '力', eg. 崇力, 日力, meaning labour-oriented. The second generation is named after '貿', meaning trade-oriented. This reflects the social and economic change of the Hong Kong industrial sector. The change is a fact of life.
3. The proposal of the second generation product, the I-C Buildings, was adopted in early 1990. The first product was completed in 1992.
4. I have no statistics of how many I-C buildings we have completed or in the pipeline so far.
5. If you need to carry out survey on our buildings, you can consider Kodak House.
6. Marketing strategy

Usually we receive early enquiries as soon as we acquired a site. They are usually old customers, or large companies with long term planning for expansion. We accumulate these enquiries. As soon as the price is confirmed by the Directors, we contact these companies first, then we start public sales. The time lag between 'private' and 'public' sales is short, usually 1 to 2 days. We always keep at least 50% of units available to public. We do not practise 'insider speculative trading' at discount prices.

The amount of early enquiries can act as market indicator.

With I-C buildings, we seldom 'test market' by selling only a portion of the building. We usually make the whole block available for customers' choice to suit their needs.

7. Target Customers

Varies by location. For instance, customers at Cheung Sha Wan are biased towards garment trading, in Quarry Bay towards printing and publishing. Kwun Tong has a large spectrum of traders in metal, toys, garment, etc.. Tsuen Wan and Kwai Chung are old industrial areas, with less commercial/ trading activities. I-C buildings in these areas tend to be used as half-industrial, half-office, rather than 100% offices as in other areas.

- We keep a database of all our customers. So far it is a sellers market. We have not actively used our database yet.

8. Attributes customers consider important

All attributes in your questionnaire are important. But weighing of attributes varies with sites.

For example, with a waterfront site like Kodak House, the weight of the panoramic view is reflected in the price, and that all seaview units were sold out first. With a Cheung Sha Wan site surrounded by buildings and traffic jams, easy access from MTR is a strong selling point.

Our brand name and reputation for quality also carry a premium.

Suitable building design to meet customers' requirements are vital to the success of the building.

After sales service, the building management service, is also a very important factor in securing repeat customers. We manage all our buildings with our subsidiary company, unless they are fired by the Building Owners' Cooperation. So far nothing of the sort has happened.

9. Research on customer needs

We do not hire research consultants. Rather we rely on informal communication channels to gauge feedback from our in-house building management company who is in day-to-day contact with our customers. We note in particular the movement trend of the different trades.

10. Government control on I-C buildings

The Government will sooner or later clamp down on the use of I-C buildings. For all 'I' lots in good locations and are feasible to meet office regulations, we are now applying for changing to "I/C" use. I can't tell you the premium we are paying. They vary for different lots.

11. The future market

The market niche for Grade C or B offices will definitely expand with increase in the trading sector and opening of China. While demand increases, supply of office land is very limited. Last year there was not a single parcel of 'Commercial' land suitable for office use that was put up for auction by the Government. Rezoning 'I' lots to 'I/C' lots, and building legal I-C buildings will be the answer to the need.

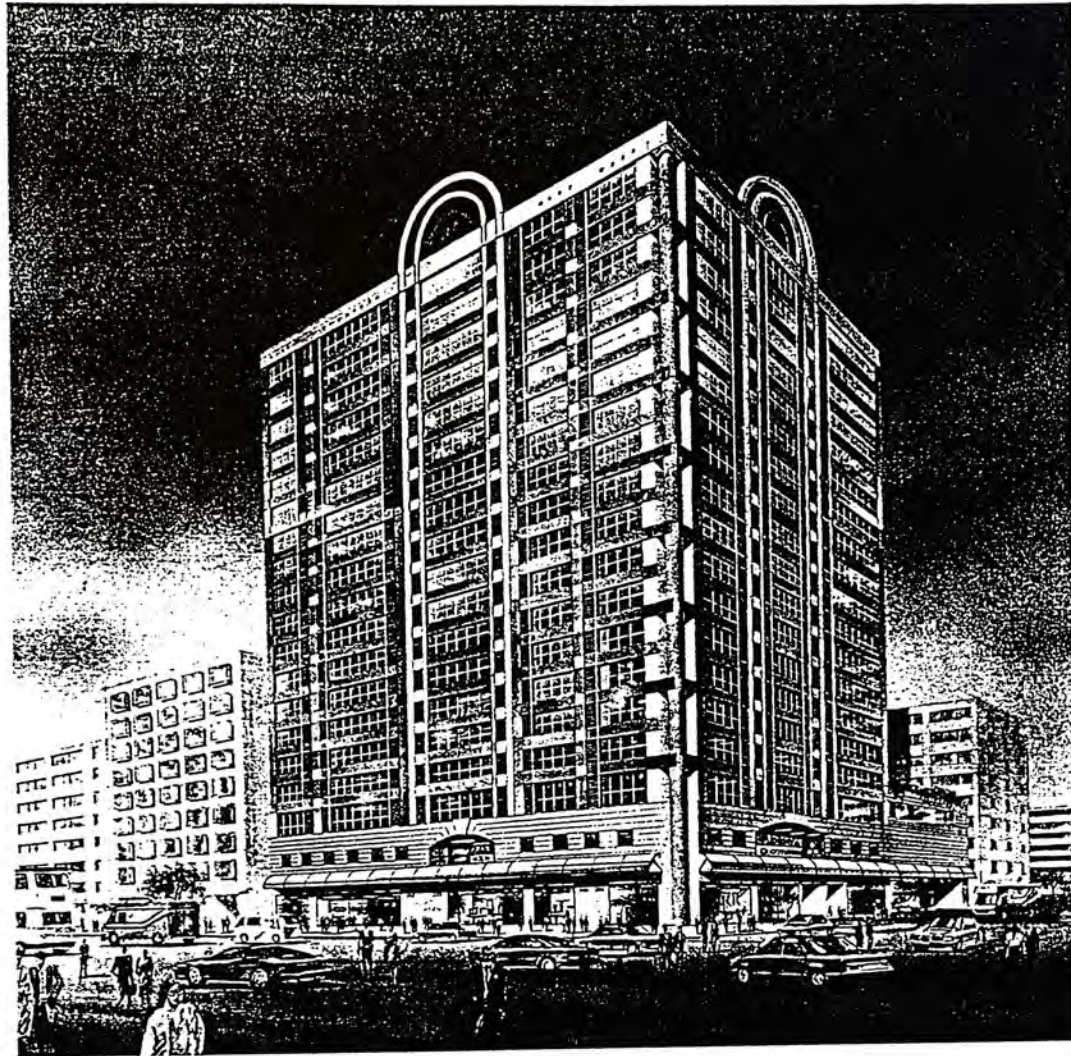
12. Total Marketing Management

Like the automobile industry, creating a new product in the real estate industry takes 3 to 4 years. We cannot wait for a social or economic change and then produce something to meet customers' needs. We must foretell needs a few years ahead, and plan for the whole package, in order to remain ahead in the industry.

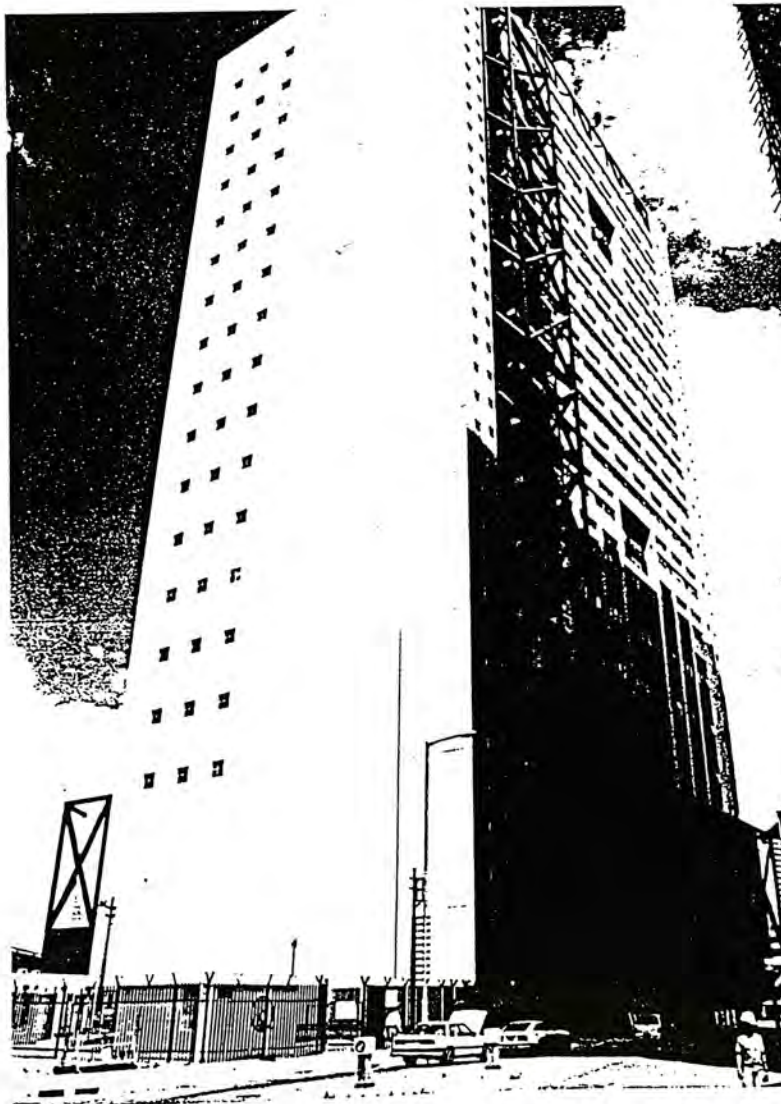
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PHOTOGRAPHS & PLATES

A) Building Outlook

Kowloon Plaza

-at Cheung Sha Wan
-developer: Sino
-completion: 1991

East Harbour Centre

-at Quarry Bay
-developer:
Tai Cheung
-completion: 1991



Kodak House

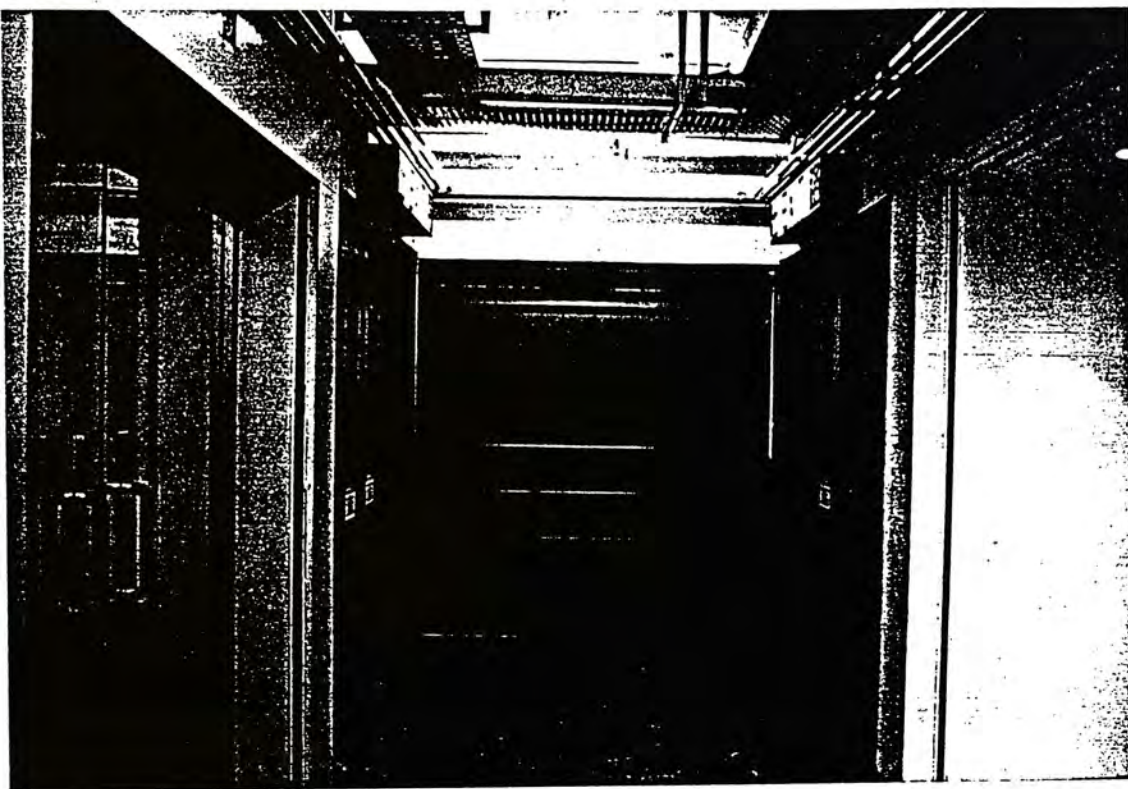
-at North Point
 -developer: Sun Hung
 Kai
 Completion: 1993

Cheung Tat Centre

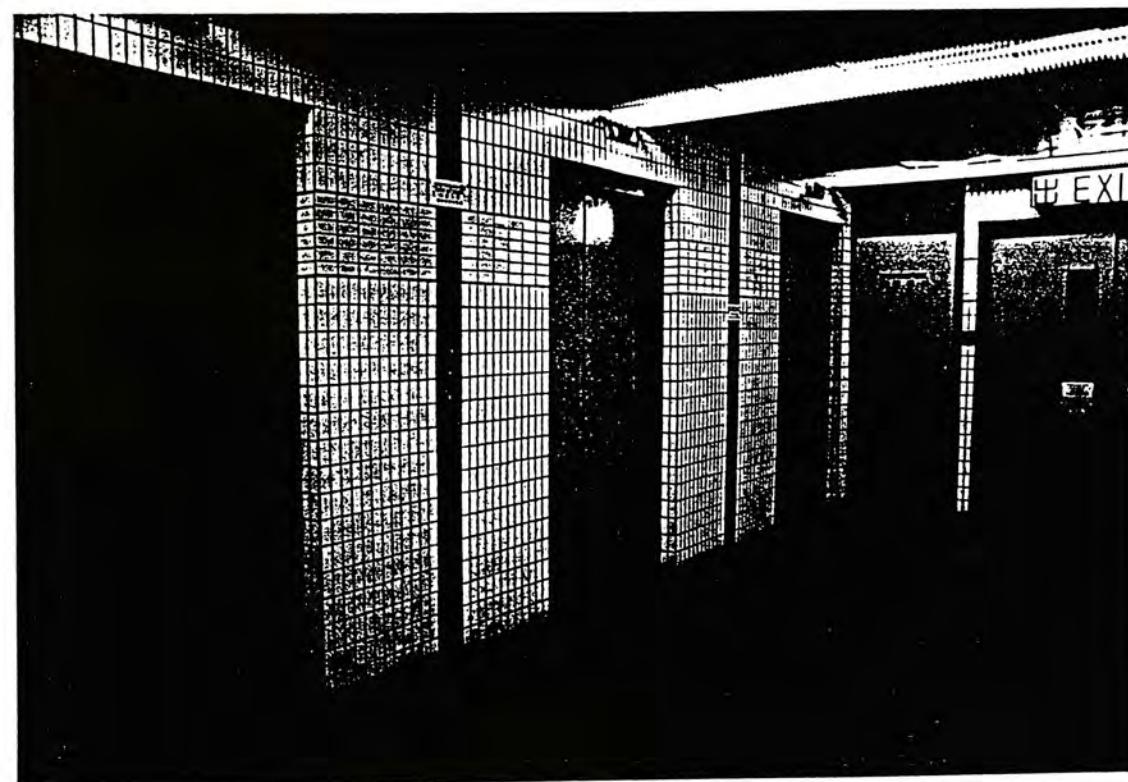
-at Chai Wan
 -developer: Cheung
 Kong
 -completion: 1993



B) Lift Lobbies & Corridors

Westland Centre

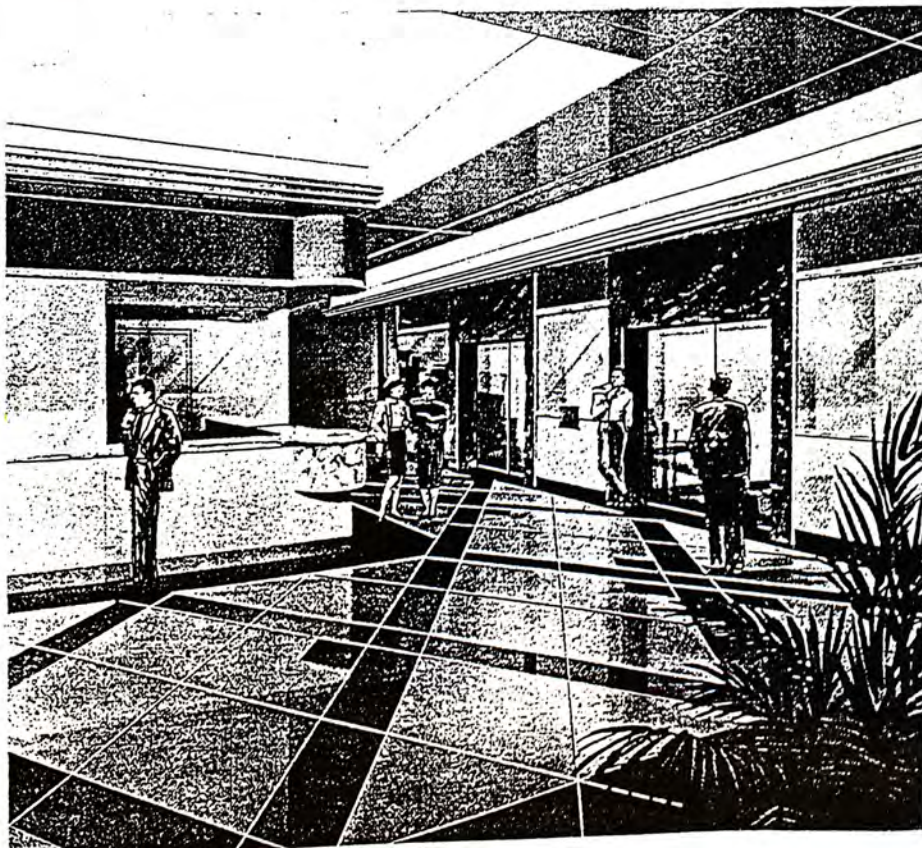
- at Quarry Bay
- developer: Tai Cheung
- completion: 1989
- one of the first I-C Buildings
- cargo hoist still installed





Kodak House

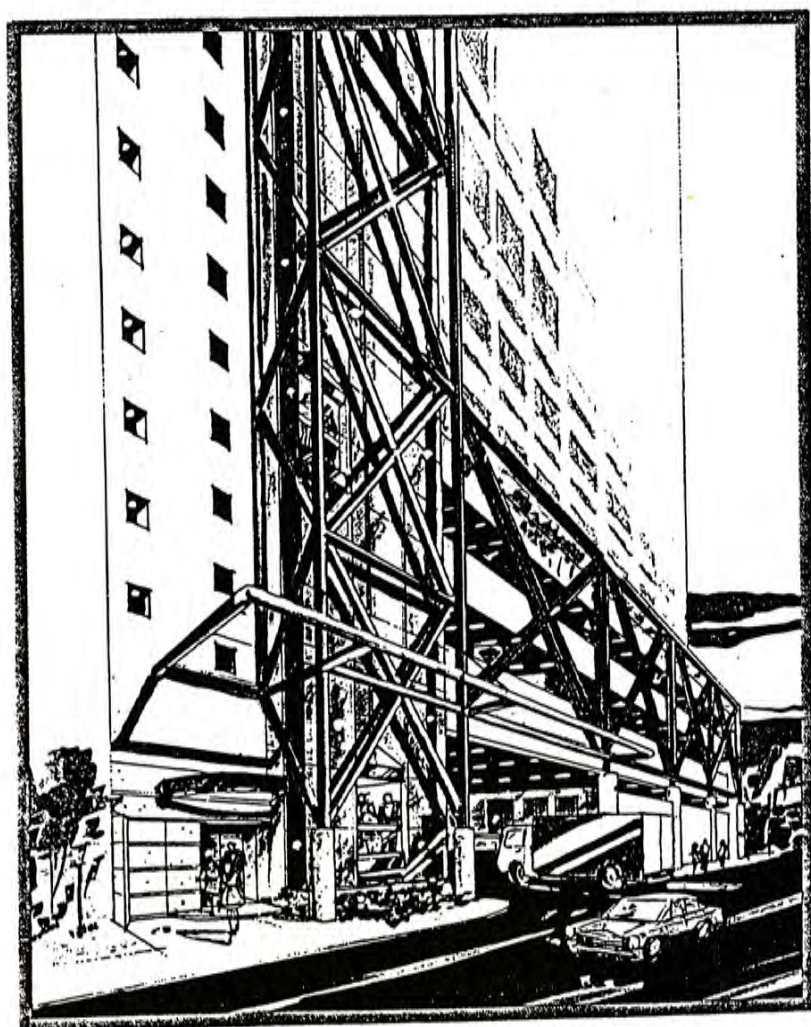
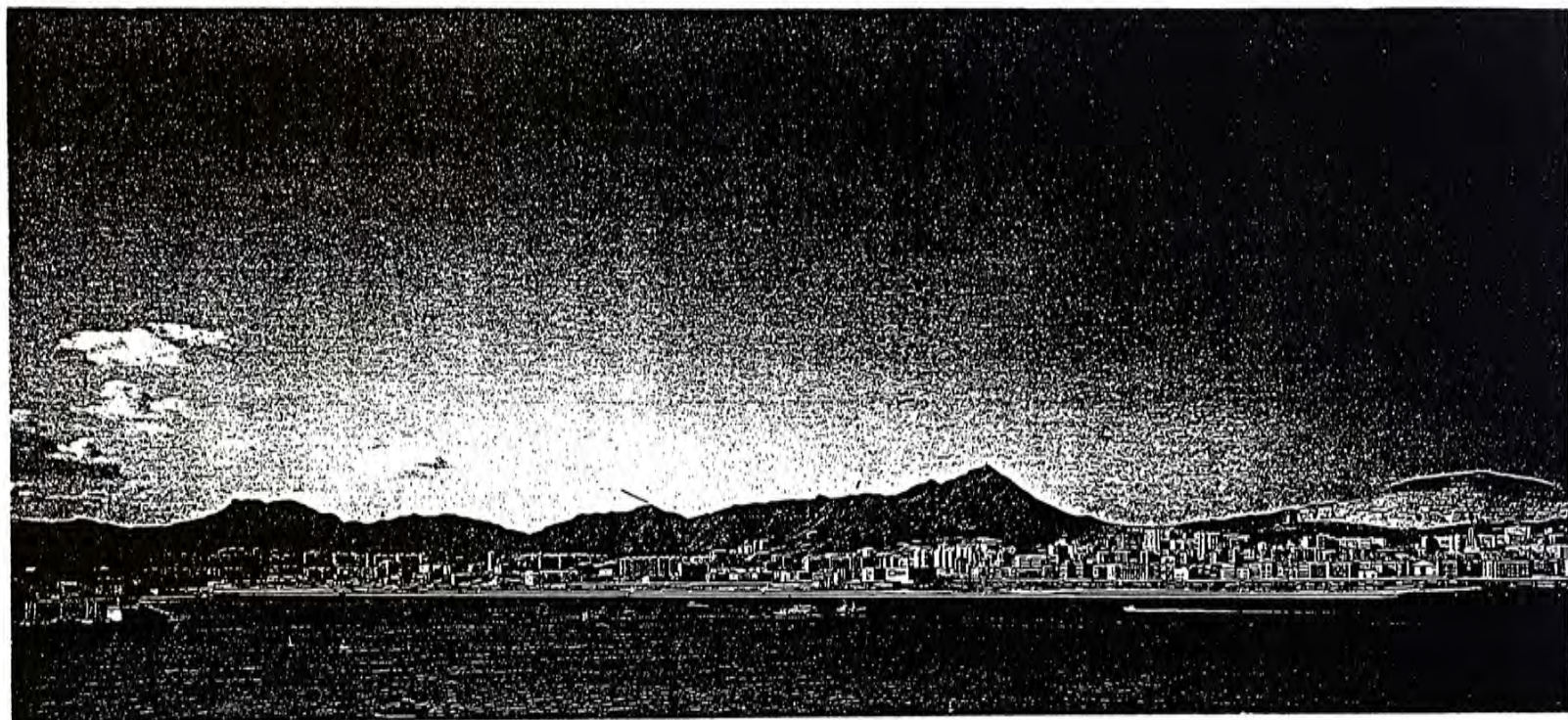
- granite cladded ground floor lobby
- air conditioned upper floor lobbies



Vogue Centre

- at Cheung Sha Wan
- developer: Sun Hung Kai
- completion: 1992
- ground floor lobby decorated as office buildings

c) View

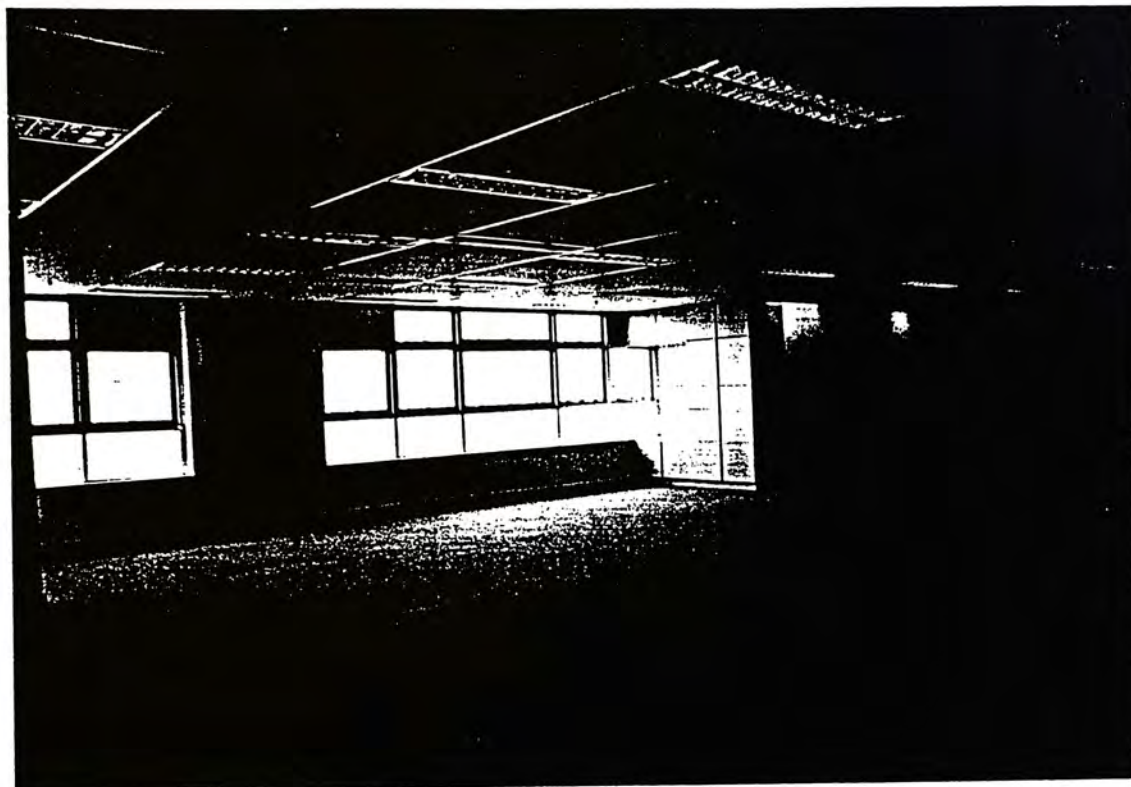
Kodak House

- Panoramic seaview emphasised in sales promotion brochures

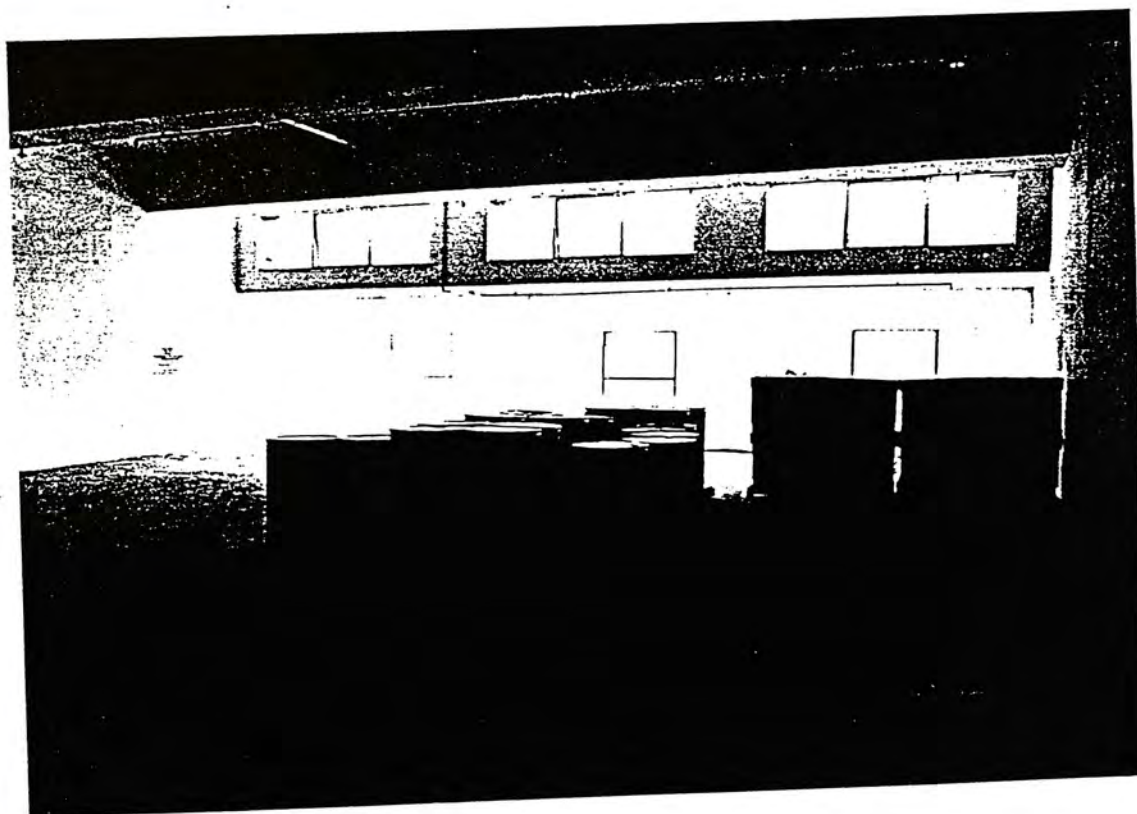
East Harbour Centre

- glass clad bullet passenger lifts to capture seaview.

D) The I-C Building Units

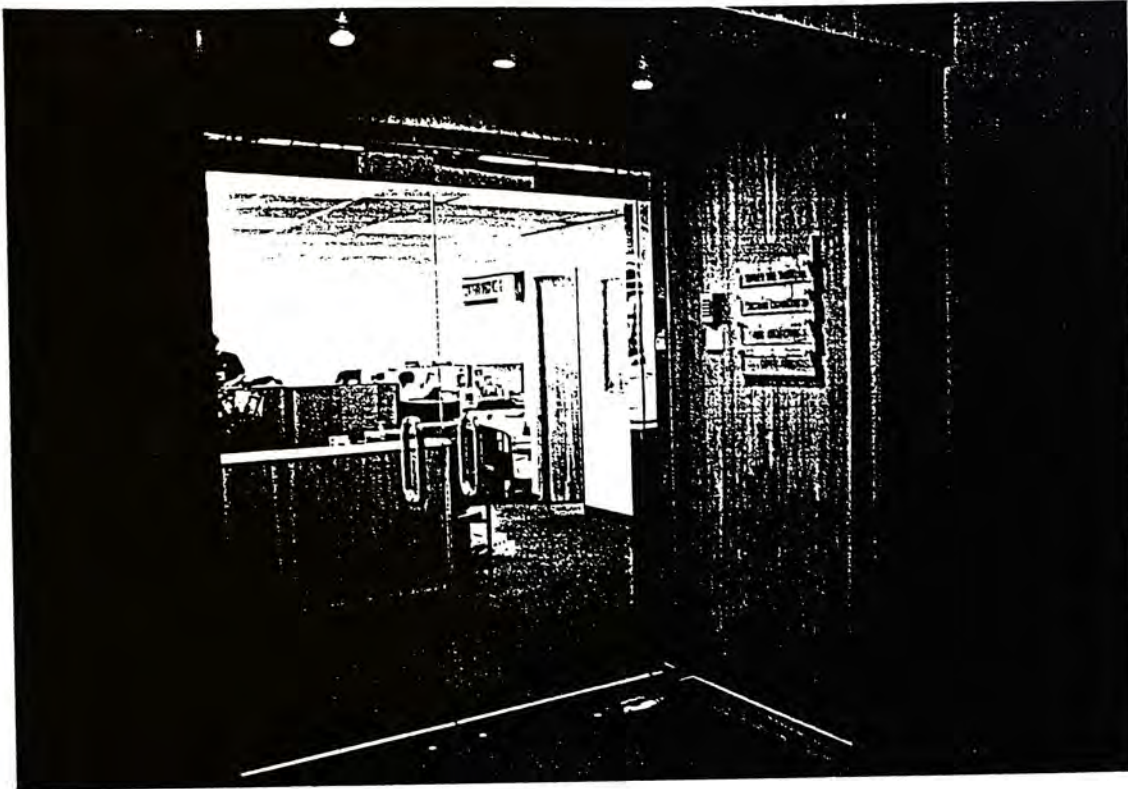
Kodak House

- full office standard with large windows, false ceiling, recessed light, carpet, etc.

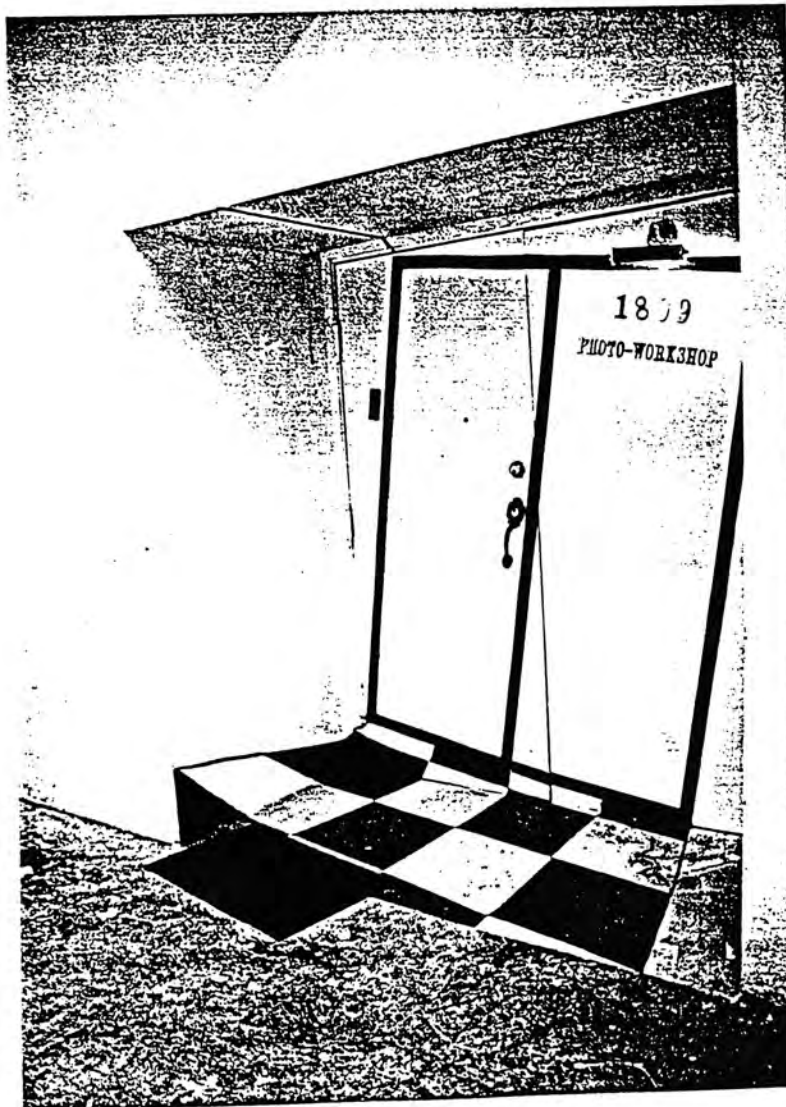
East Harbour Centre

- minimum decoration, large windows.
- high headroom & floor loading allow cockloft addition.

E) Use of the Units

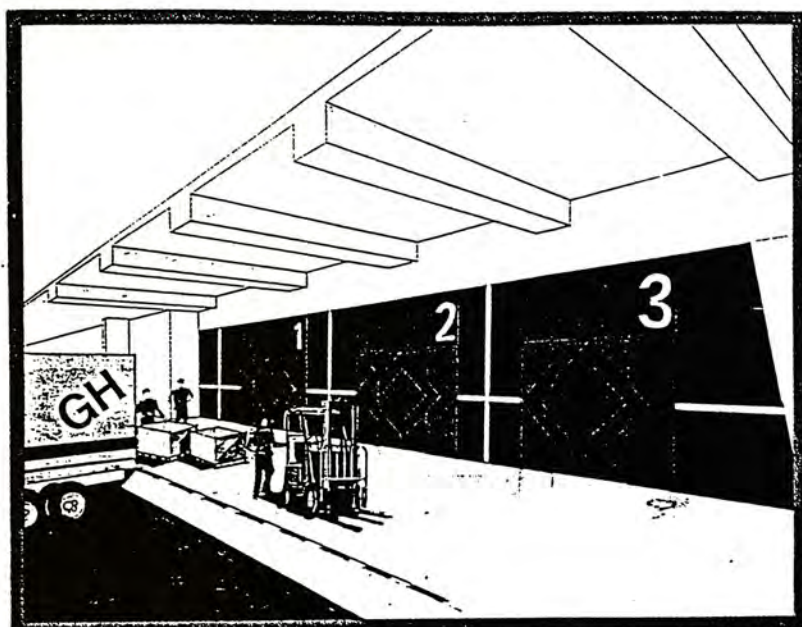


As office



As workshop

F) Other Features



- Lorry loading facility is important to quasi-industrial tenants.



- grand entrance & neat internal corridors attract commercial tenants.



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- 2.9 Wharf (Holdings) Ltd
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- 2.11 China Overseas Land & Investment Ltd
- 2.12 Hong Kong Land Holdings Ltd
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- 2.16 Tai Sang Land Development Ltd
- 2.17 Hysan Development Co Ltd
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- 2.19 Emperor International Holdings Ltd

3. Other Publications

- 3.1 Wardley James Capel report on Property Development Companies, May 1992
- 3.2 Vigers Property Review, Third Quarter 1992
- 3.3 Asian Property, March 1991
- 3.4 Hang Seng Economic Monthly, December 1992
- 3.5 Asian Development Outlook 1991, Asian Development Bank
- 3.6 East Week Magazine No 45, 1 September 1993

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